銀仕來

2014 INTERIM REPORT 中期報告

SILVERMAN HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1616)

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CONTENTS

SUMMARY

- Turnover was approximately RMB362.1 million, representing a decrease of approximately 6.6% as compared to that of the corresponding period of last year.

- Gross profit margin was approximately 14.1% of the turnover, representing an increase of approximately 2.9% as compared to that of approximately 13.7% for the corresponding period of last year.

- Gross profit decreased by approximately RMB2.3 million, or approximately 4.3%, to approximately RMB51.0 million for the six months ended 30 June 2014.

- Profit attributable to the equity shareholders of the Company was approximately RMB7.4 million, representing a decrease of approximately 67.2% as compared to that of the corresponding period of last year.

CORPORATE INFORMATION

The Board of Directors

Executive Directors

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

Independent Non-executive Directors

Mr. ZHU Ping
Mr. LAM Kai Yeung
Mr. CHANG Tao

Company secretary

Ms. CHAN Yin Wah, *FCS, FCIS, FCCA*

Authorised representatives

Mr. LIU Dong
Ms. CHAN Yin Wah

Audit committee

Mr. LAM Kai Yeung *(Chairman)*
Mr. ZHU Ping
Mr. CHANG Tao

Remuneration committee

Mr. ZHU Ping *(Chairman)*
Mr. LIU Dong
Mr. CHANG Tao

Nomination committee

Mr. CHANG Tao *(Chairman)*
Mr. ZHU Ping
Mr. LIU Dong

Registered office

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

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

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

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

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

18th Floor, Tesbury Centre,
28 Queen's Road East,
Wanchai,
Hong Kong

Legal adviser to the Company (Hong Kong Law)

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

Auditor

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

Hong Kong branch share registrar and transfer office

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

Cayman Islands share registrar and transfer office

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

Principal banker

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

Stock code

1616

Company's website address

http://www.ysltex.com

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

In the first half of 2014, the textile industry has continued its trend as in recent years with weak domestic market demand. Despite the recovery of export market which has been still mainly in medium and low-end market such as the Association of South-east Asian Nations ("ASEAN") and Southeast Asian etc., the overall market situation is still relatively sluggish and China's textile enterprises are still under great pressure.

In the first half of 2014, the gross domestic product ("GDP") of China was of approximately RMB26,904.4 billion, representing an increase of approximately 7.4% as compared to the previous year and the economic growth has continued to slow down. In respect of export, the Renminbi exchange rate, which once showed a rapid trend of depreciation in February 2014 for a short period of time, returned to appreciation in May, and thus did not have a significant impact on China's export. According to the data of General Administration of Customs, the amount of China's export was RMB6,500 billion in the first half of 2014, representing a decrease of approximately 1.2% as compared to the previous year. Among them, the amount of textile and apparel exports was USD132.5 billion, representing an increase of 4.2% as compared to that of the previous year. Although exports of cotton woven fabrics decreased by approximately 8.9%, it represents a year-on-year growth of approximately 35.7%, 18.2% and 13.1% in respect of the export to Pakistan, Cambodia and Vietnam respectively, reflecting a huge impact of price difference between the domestic and overseas cotton on fabric enterprises.

On 5 April 2014, China announced the cessation of cotton purchasing and storage policy. The market has reflected in advance due to the public disclosure of this policy at the end of last year. The price difference between domestic and overseas cotton had decreased from the highest amount of RMB6,100/ton (representing the price difference between the international price after 1% tariff discounts and the domestic price of 3128B cotton) during November and December 2013 to less than RMB2,000/ton in June 2014. Although there was a rebound at the end of July 2014, the price difference is still less than RMB3,000/ton. Affected by this, the domestic cotton price has been decreased from RMB19,530/ton at the beginning of 2014 to RMB17,167/ton at the end of July 2014, representing a decrease of approximately 12.1%. The drop of cotton prices has led to the subsequent price decline in fabrics processing and production, and also increased the wait-and-see atmosphere of China's textile enterprises.

In the long run, the cessation of cotton purchasing and storage policy will be in favor of the marketization of domestic cotton price and the return of reasonable cotton price, which will gradually promote the connection of price difference between domestic and overseas cotton, and improve export capacity and international competitiveness of China's textile enterprises. In addition, the unified rate on cotton input and output tax has begun to be implemented in Anhui and other areas in the first half of 2014, which will undoubtedly enhance the profitability of textile enterprises.

BUSINESS REVIEW

In the first half of 2014, facing continuous and complex economic and industry situation, the Group still insisted on taking the initiative, based on our own characteristics, to further dig and make full use of the advantages of differential positioning as well as the development of new materials and new fiber fabric to ensure the operation rate, order rate and sales-output ratio and the normal operation of the Company. The Company maintained a normal operating and order condition and maintained a stable trend in operation in the first half of 2014.

For the six months ended 30 June 2014, the Group's main business revenue was approximately RMB362.1 million, representing a decrease of approximately 6.6% as compared with approximately RMB387.9 million in the previous year. The decrease was mainly due to the decline of the product price resulted from the decline of the cotton price. Profit attributable to equity shareholders of the Company was approximately RMB7.4 million, representing a decrease of approximately 67.2% as compared with approximately RMB22.6 million in the previous year. The decrease in profit was mainly due to the sharp decrease of foreign exchange gain as compared to that of the corresponding period in 2013, the decrease of average selling price of the textile products and the increase in the labour cost of the Group.

For the six months ended 30 June 2014, the sales volume of jacquard fabrics and dobby fabrics, which were the Group's major products, were approximately 5.3 million meters and 20.4 million meters respectively, representing an increase of approximately 5.5% and approximately 0.7% respectively as compared to those of the corresponding period in the previous year. The percentage of revenue derived from the jacquard and dobby fabrics made of new materials amounted to approximately 66.0%, representing an increase of approximately 26.0% as compared to that of the corresponding period in the previous year. The percentage of revenue derived from the jacquard fabrics amounted to approximately 26.3%, representing an increase of approximately 4.4% as compared to that of the corresponding period in the previous year. The rising of the sales volume and the proportion of jacquard fabrics made of new materials reflects the great efforts made by the Group to develop new and special products, to further optimize the product structure and to improve efficiency according to the market demand under the tough market conditions.

FINANCIAL REVIEW

Turnover, gross profit and gross profit margin

The table below is an analysis of the Group's turnover, gross profit and gross profit margin of its major products for the six months ended 30 June 2014 and 2013, respectively:

	For the six months ended 30 June					
	2014			2013		
Product	**Turnover RMB'000**	**Gross profit RMB'000**	**Gross profit margin %**	Turnover RMB'000	Gross profit RMB'000	Gross profit margin %
Jacquard grey fabrics	**95,422**	**18,052**	**18.9%**	97,915	18,721	19.1%
Dobby grey fabrics	**249,626**	**31,620**	**12.7%**	277,575	33,727	12.2%
Processing service income	**11,794**	**716**	**6.1%**	8,992	805	9.0%
Others	**5,257**	**634**	**12.1%**	3,389	57	1.7%
Total	**362,099**	**51,022**	**14.1%**	387,871	53,310	13.7%

For the six months ended 30 June 2014, the gross profit margin of the Group increased by approximately 2.9%, from approximately 13.7% to approximately 14.1%, when compared to that of the corresponding period in previous year. The increase of the major products gross profit margins and the overall gross profit margin were mainly due to (i) the decrease in costs resulted from the expiration of part of the equipment depreciation; and (ii) the decrease in costs of raw materials. In addition to cost control, the Group developed new and special products according to the market demand to optimize the product mix, and implemented flexible and effective marketing strategy to maximize the Group's gross profit margin.

Distribution costs

For the six months ended 30 June 2014, total distribution costs of the Group increased by approximately RMB0.8 million to approximately RMB6.4 million from approximately RMB5.6 million of the corresponding period in previous year. Such increase was mainly due to the increase in business entertainment and transportation charges during the Period under Review when compared to that of the corresponding period in previous year.

Administrative expenses

For the six months ended 30 June 2014, the administrative expenses of the Group was approximately RMB30.5 million, representing an increase of approximately 6.6% when compared to that of approximately RMB28.6 million of the corresponding period in previous year. The increase was mainly due to the corresponding increase in the staff costs and office expenses after the launch of new production line.

Net finance costs

During the Period under Review, the Group recorded a net finance cost of approximately RMB9.4 million due to the increase in finance costs and the decrease in finance income as compared to those of the corresponding period in previous year. For the six months ended 30 June 2014, the finance costs of the Group were approximately RMB10.2 million, representing an increase of approximately RMB1.9 million as compared to that of approximately RMB8.3 million of the corresponding period in 2013. Such increase was mainly due to the increase in the interest expenses resulted from the increase in amount of financial lease. The finance income of the Group was approximately RMB0.8 million, representing a decrease of approximately RMB15.4 million when compared to that of approximately RMB16.2 million of the corresponding period in 2013, which was mainly due to the repayment of Japanese Yen loans in the second half of 2013, which caused an exchange gain in the first half of 2013.

Taxation

Taxation of the Group decreased by approximately 116% from approximately RMB8.1 million in the first half of 2013 to approximately minus RMB1.3 million in the Period under Review. This was mainly due to the decrease in taxable profit and preferential policy of income tax additional deduction entitled by subsidiaries of the Group during the Period under Review.

Profit attributable to the equity shareholders of the Company

For the six months ended 30 June 2014, the profit attributable to the equity shareholders of the Company was approximately RMB7.4 million, representing a decrease of approximately 67.2%, from approximately RMB22.6 million as compared to that of the corresponding period in 2013. The decrease was mainly due to the drop of the product selling price and the increase in labour costs and the substantial decrease of exchange gain. The gross profit margin for the six months ended 30 June 2014 was approximately 14.1%, representing an increase of approximately 2.9%, from that of approximately 13.7% for the corresponding period in previous year. As a consequence, the gross profit dropped by approximately 4.3%, or approximately RMB2.3 million, to approximately RMB51.0 million for the six months ended 30 June 2014 from that of approximately RMB53.3 million for the corresponding period in previous year.

Liquidity and financial resources

As at 30 June 2014, cash and cash equivalents of the Group were approximately RMB89.0 million, representing a decrease of approximately 13.1% from approximately RMB102.4 million as at 31 December 2013. The decrease was mainly because of the investments made for the construction of new production line during the Period under Review.

As at 30 June 2014, the Group’s cash and cash equivalents were mainly held in Renminbi, Japanese Yen, US dollars, HK dollars and Euro, of which, approximately RMB75.9 million (31 December 2013: RMB87.9 million) or 85.3% (31 December 2013: 85.8%) of the cash and cash equivalents were held by the Group in Renminbi.

For the six months ended 30 June 2014, the Group's net cash generated from operating activities was approximately RMB19.9 million, net cash used in investing activities was approximately RMB61.4 million and net cash generated from financing activities was approximately RMB28.0 million. Cash and cash equivalents decreased by approximately RMB13.4 million during the Period under Review (as at 31 December 2013: approximately RMB102.4 million). The Board believes that the Group will maintain a sound and stable financial position, and will maintain sufficient liquidity and financial resources for the Group's business need.

The Group's customers, who have set up long-term business relationship with us and have well settlement history and sound reputation, have been granted a credit period typically ranging from 30 to 180 days pursuant to the payment terms of the purchase or processing orders. The length of credit period depends on various factors such as financial strength, size of the business and settlement history of those customers. For the six months ended 30 June 2014, the average trade receivables (including bills receivable) turnover period of the Group was approximately 48 days, up from 41 days for the corresponding period in previous year. The increase was mainly because the Group has granted longer credit terms to qualified customers with sound credit records in order to attract more customers' orders.

For the six months ended 30 June 2014, inventory turnover period of the Group increased to 94 days from 93 days for the corresponding period in previous year. This was mainly because the reduction in the proportion of cost of sales is higher than the reduction in the proportion of average inventory balance in the Period under Review.

As at 30 June 2014, the Group's borrowings (including obligations under financial lease) was approximately RMB238.6 million (31 December 2013: approximately RMB267.7 million), bore fixed interest at rates ranging from 4.5% to 6.2% (31 December 2013: 4.5% to 7.1%) per annum. As at 30 June 2014, the Group's borrowings of approximately RMB85.0 million (31 December 2013: approximately RMB20.0 million) bore floating interest at PBC benchmark lending rate (31 December 2013: PBC benchmark lending rate).

Capital structure

The Group continues to maintain an appropriate mix of equity and debt to ensure an efficient capital structure to reduce capital cost. As at 30 June 2014, the debts of the Group were mainly represented by borrowings with a total amount of approximately RMB323.6 million (31 December 2013: approximately RMB287.7 million). As at 30 June 2014, cash and cash equivalents were approximately RMB89.0 million (31 December 2013: approximately RMB102.4 million). As at 30 June 2014, the Group's gearing ratio was approximately 39.0% (31 December 2013: approximately 30.8%), which was calculated by dividing total debt (i.e. interest-bearing bank borrowings and obligations under finance lease, after deducting cash and cash equivalents) by total equity.

As at 30 June 2014, the Group's debts due within a year were approximately RMB 282.6 million.

Capital commitments

Save as disclosed in note 16 below, the Group did not have any other significant capital commitments as at 30 June 2014 (31 December 2013: Nil).

Exposure to foreign exchange risk

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

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

Contingent liabilities

As at 30 June 2014, the Group did not have any contingent liabilities (31 December 2013: Nil).

Charges on assets

Save as disclosed in note 12 below, the Group pledged its machinery and equipment with net book value of approximately RMB61.8 million (31 December 2013: RMB50.6 million), trade receivables with net book value of approximately RMB20.5 million (31 December 2013: Nil) and short-term investments with net book value of approximately RMB20.0 million (31 December 2013: Nil) to banks as securities for bank borrowings as at 30 June 2014.

Employee and remuneration policy

As at 30 June 2014, the Group had a total of approximately 2,946 employees (31 December 2013: 2,910; 30 June 2013: 2,594), the increase in the number of staff as compared to that of the previous year was mainly because of the Group's recruitment of more employees for the new production line in the first half of 2014.

For the six months ended 30 June 2014, staff costs of the Group (including Directors' remuneration in the form of salaries and other allowances) were approximately RMB60.2 million (2013: approximately RMB51.0 million). The increase in staff costs was mainly due to the Group's recruitment of more production staff for the new production line.

The Group continues to provide training to staff members to improve their operation skill. Meanwhile, the Group enhanced the work efficiency and average income of the staff through post-consolidation, process reorganization and improvement of working and living environment of the staff. The remuneration of the employees of the Group was subject to their working performance, experience and the industry practices. The management of the Group will also periodically review the remuneration policy and details. In addition, the Group provides bonuses and incentives based on their performances to encourage and motivate its staff to strive for better performance. During the year 2014, the Group will continue to provide training to staff members according to their respective skill requirements, such as training sessions on safety and skill.

FUTURE OUTLOOK

Despite long lasting and complex features of the downturn of cotton textile enterprises since 2008, the downturn is still a relatively normal phenomenon in view of the domestic and international economic situation and the industry fluctuation. Although the textile industry encountered some difficulties, the general trend of the development of China's economy, the improvement of quality of life, the progress of urbanization and the recovery of global economy still shows good prospects for high-ended textile products in the long run.

"All things come to life in spring, swell in summer, fruit in autumn and conserve in winter" is not only the law of nature, but also the inexorable law of social and enterprise development. Currently, both China's economy and textile industry are undergoing the "labor pains" of transformation and upgrading which not only mean cruel elimination or abandonment but also cultivate hope and opportunity. The "danger" is accompanied by the "opportunity" and the key is to grasp the chance by the enterprise.

In 2014, the Group's high-end spinning project has been put into operation, which can provide better materials support for fabric development and production of the Company. In future, the Group will insist on taking the initiative to develop new and differential products which fulfills the market demand in order to always keep the leading position in the market segment. Meanwhile, the Group has also proposed the goal to build a world-class enterprise at the beginning of 2014 and will focus on the concept, work standards, innovation capability, human and customer resources etc. of the Company by comprehensively learning from international excellent enterprises, further improving the level of lean management and innovation capability, increasing revenue and reducing expenditure, and improving efficiency so as to continuously enhance the profitability and core competitiveness of the Group.

SUPPLEMENTARY INFORMATION

Significant investments held

Save as the investments in equity securities and short-term investments presented in the unaudited consolidated statement of financial position as at 30 June 2014, the Group did not hold any significant investments in equity interest in any company during the six months ended 30 June 2014.

Future plans for material investments and capital assets

Save as disclosed in the prospectus of the Group dated 29 June 2012 and in the announcement made on 23 January 2013, the Group did not have any other plans for material investments and capital assets during the Period under Review.

Material acquisitions and disposals of subsidiaries and associated companies

During the six months ended 30 June 2014, the Group did not have any material acquisitions and disposals of subsidiaries and associated companies.

Use of proceeds

As stated in the section headed ''Future Plans and Use of Proceeds'' of the Prospectus, the Company intended to apply part of the net proceeds from the global offering (the "Net IPO Proceeds") for the expansion and upgrade of production facilities of wide width shuttleless loom and supporting equipment for the purpose of increasing the Group's production capacity of fabric products. The Net IPO Proceeds of approximately HKD140 million (equivalent to approximately RMB112 million), out of which, approximately 66% of the Net IPO Proceeds or approximately HKD92 million (equivalent to approximately RMB74 million) was designated to be used for the above purpose.

Nevertheless, on 23 January 2013, due to on-going weak market demand of both the international and domestic textile markets, after investigation and analysis conducted by the Group, the Board decided to adjust part of use of the Net IPO Proceeds, which were originally designated to the above purpose, and apply such part of Net IPO Proceeds for the acquisition of 100,000 spindles of new type yarn spinning facilities for production of yarns as raw materials of the Group in order to better control the cost and supply of yarns required for existing production. The estimated total purchase price was approximately RMB200 million. The remaining funds to be required were financed by the Group's internal resources and bank loans. Relevant details were set out in the announcement of the Company dated 23 January 2013 published on the website of the Company and the Stock Exchange. The above mentioned project was launched in November 2012, and now has been in full operation.

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

For the six months ended 30 June 2014, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

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

As at 30 June 2014, the Directors and chief executive of the Company had the following interests in the shares, underlying shares and debentures of the Company, its Group members and/or associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code:

Name of Directors	Name of Group member/ associated corporation	Capacity/nature of interest	Number and class of securities *(Note 1)*	Approximate percentage of shareholding
Mr. LIU Dong *(Note 2)*	The Company	Interest of a controlled corporation	553,609,836 Shares (L)	69.20%
	Excel Orient Limited	Beneficial owner	1 Share (L)	100%

Notes:

1. The letter "L" denotes the Directors' long position in the Shares or the relevant associated corporation.

2. The Shares are held by Excel Orient Limited which is a company incorporated in the British Virgin Islands ("BVI") and the entire issued capital of which is beneficially owned by Mr. LIU Dong, one of the controlling shareholders and executive Directors of the Company.

Save as disclosed above, as at 30 June 2014, none of the Directors and chief executive of the Company had any other interests or short positions in any shares, underlying shares or debentures of the Company, any of its Group members or its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code.

Interest discloseable under the SFO and substantial shareholders

As at 30 June 2014, so far as was known to the Directors, the following persons/entities (other than the Directors or chief executive of the Company) had, or were deemed to have, interests or short positions in the shares or underlying shares of the Company, its Group members and/or associated corporations which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO:

Name of Shareholders	Name of Group member/associated corporation	Capacity/nature of interest	Number and class of securities *(Note 1)*	Approximate percentage of shareholding
Excel Orient Limited *(Note 2)*	The Company	Beneficial owner	553,609,836 Shares (L)	69.20%
Ms. WANG Lingli *(Note 3)*	The Company	Family interest	553,609,836 Shares (L)	69.20%
Sunlion Holdings Limited *(Note 4)*	The Company	Beneficial owner	46,230,066 Shares (L)	5.78%
Mr. YAN Tangfeng *(Note 5)*	The Company	Interest of a controlled corporation	46,230,066 Shares (L)	5.78%
Ms. YANG Chun *(Note 6)*	The Company	Family interest	46,230,066 Shares (L)	5.78%

Notes:

1. The letter "L" denotes the long position of the persons/entities (other than the Directors or chief executive of the Company) in the shares of our Company or the relevant Group member.

2. Excel Orient Limited is a company incorporated in the BVI and the entire issued share capital of which is beneficially owned by Mr. LIU Dong, one of the controlling shareholders and executive Directors of the Company. Therefore, Mr. LIU Dong is also deemed to have the interest owned by Excel Orient Limited.

3. Ms. WANG Lingli is the spouse of Mr. LIU Dong. Therefore, Ms. WANG Lingli is deemed, or taken to be interested in the Shares which Mr. LIU Dong is interested in for the purpose of the SFO.

4. Sunlion Holdings Limited is a company incorporated in the BVI, the entire issued share capital of which is beneficially owned by Mr. YAN Tangfeng. Therefore, Mr. YAN Tangfeng is also deemed to have the interest owned by Sunlion Holdings Limited.

5. These Shares are held by Sunlion Holdings Limited which is a company incorporated in the BVI and the entire issued capital of which is beneficially owned by Mr. YAN Tangfeng.

6. Ms. YANG Chun is the spouse of Mr. YAN Tangfeng. Therefore, Ms. YANG Chun is deemed, or taken to be interested in the Shares which Mr. YAN Tangfeng is interested in for the purpose of the SFO.

Save as disclosed above, as at 30 June 2014, the Directors were not aware of any other persons/entities (other than the Directors and chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company, its Group members or associated corporations which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

Corporate governance

Adapting and adhering to the recognised standards of corporate governance principles and practices has always been one of the top priorities of the Company. The Board believes that good corporate governance is one of the areas that lead to the success of the Company and in balancing the interests of shareholders, customers and employees, and the Board is devoted to ongoing enhancements of the efficiency and effectiveness of such principles and practices.

During the Period under Review, the Company had adopted and complied with the code provisions (the "Code Provisions") set out in the Corporate Governance Code and Corporate Governance Report contained in Appendix 14 to The Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), except Code Provisions A.1.8 and A.2.1 as more particularly described below.

Code Provision A.1.8 stipulates that an issuer should arrange appropriate insurance cover in respect of legal action against its directors. Up to the date of this announcement, the Company has not arranged such insurance coverage for the Directors as the Board was of the opinion that sound and effective corporate governance within the Group would suffice in monitoring and mitigating legal and compliance risks. Nevertheless, the Board will continue to review the arrangements for insurance cover for the Directors from time to time, and may arrange for insurance cover in the future, if and when the Board considers appropriate.

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

Ms. Zhu Beina resigned as independent non-executive Director on 31 December 2013, and ceased to be the chairman and member of the nomination committee (the "Nomination Committee"), the member of audit committee (the "Audit Committee") and the remuneration committee (the "Remuneration Committee"). Following the resignation of Ms. Zhu, the number of independent non-executive Directors falls below the minimum number as required under Rule 3.10(1) of the Listing Rules, and the number of the Audit Committee members falls below the minimum number as required under Rule 3.21 of the Listing Rules. In addition, the composition of the Remuneration Committee and the Nomination Committee falls below the requirements under Rule 3.25 and code provision A.5.1 of Appendix 14 to the Listing Rules.

On 21 March 2014, the Board appointed Mr. Chang Tao as an independent non-executive Director as well as the chairman and member of the Nomination Committee, a member of each of the Audit Committee and the Remuneration Committee. The Company has complied with the requirements in relation to the number of independent non-executive directors and members of the Audit Committee as required under Rules 3.10(1), 3.10A and 3.21 of the Listing Rules. In addition, the Company has complied with the requirements in relation to the composition of the Remuneration Committee and Nomination Committee as required under Rule 3.25 and Code Provision A.5.1 of Appendix 14 to the Listing Rules.

Board diversity policy

Code Provision A.5.6 stipulates that the nomination committee (the "Nomination Committee") (or the board) should have a policy concerning diversity of board members, and should disclose the policy or a summary of the policy in the corporate governance report.

With an aim to achieve diversity on the Board of the Company, the Board has approved and adopted a Board Diversity Policy (the "Policy") and revision to the terms of reference of the Nomination Committee of the Board to ensure the appropriate implementation of the Policy. The Policy was made with a view to achieving a sustainable and balanced development of the Company, of which, among others, all Board appointments will be based on meritocracy, and candidates will be considered against appropriate criteria, having due regard for the benefits of diversity on the Board.

The Company commits to selecting the best person for the role. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural background and ethnicity, in addition to educational background, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board. The Board's composition (including gender, age, length of service) will be disclosed in the Corporate Governance Report annually.

The Nomination Committee will report annually, in the Corporate Governance Report, on the Board's composition under diversified perspectives, and monitor the implementation of this Policy.

The Nomination Committee will review this Policy, as appropriate, to ensure the effectiveness of this Policy. The Nomination Committee will discuss any revisions that may be required, and recommend any such revisions to the Board for consideration and approval.

Model code for securities transactions by the Directors

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. The Company confirms that, having made specific enquiry of all Directors, all the Directors have compiled with the required standards of dealing as set out in the Model Code during the Period under Review.

Audit committee

The Audit Committee established by the Board has reviewed the accounting principles and practices adopted by the Group and discussed auditing, internal control and financing reporting matters (including the review of the unaudited consolidated financial statements of the Group for the six months ended 30 June 2014).

Interim dividend

The Board does not propose an interim dividend for the six months ended 30 June 2014 (30 June 2013: Nil).

Events after the reporting period

No significant event took place during the period subsequent to 30 June 2014 and up to the date of this announcement.

Consolidated statement of profit or loss and other comprehensive income

For the six months ended 30 June 2014 - unaudited

(Expressed in Renminbi)

	Note	Six months ended 30 June	
		2014	2013
		RMB'000	RMB'000
Turnover	3	**362,099**	387,871
Cost of sales		**(311,077)**	(334,561)
Gross profit		**51,022**	53,310
Other net gains	4	**1,384**	3,767
Distribution costs		**(6,368)**	(5,565)
Administrative expenses		**(30,477)**	(28,648)
Profit from operations		**15,561**	22,864
Finance income	5(a)	**757**	16,217
Finance costs	5(a)	**(10,179)**	(8,344)
Profit before taxation		**6,139**	30,737
Income tax	6	**1,272**	(8,112)
Profit and total comprehensive income for the period		**7,411**	22,625
Profit and total comprehensive income attributable to equity shareholders of the Company		**7,411**	22,625
Earnings per share (RMB)	7		
Basic and diluted		**0.0093**	0.0283

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

Consolidated statement of financial position

As at 30 June 2014 - unaudited

(Expressed in Renminbi)

	Note	At 30 June 2014 RMB'000	At 31 December 2013 RMB'000
Non-current assets			
Fixed assets	9		
- Property, plant and equipment		**524,434**	537,702
- Interests in leasehold land under operating leases		**52,508**	48,375
		576,942	586,077
Intangible assets		**29**	12
Goodwill		**6,394**	6,394
Investments in equity securities		**1,000**	1,000
Deferred expenses	11	**2,396**	3,103
		586,761	596,586
Current assets			
Short-term investments	10	**20,000**	-
Inventories		**165,299**	163,163
Trade and other receivables	11	**171,092**	156,100
Pledged bank deposits	12	**8,008**	9,826
Cash and cash equivalents	13	**88,973**	102,375
		453,372	431,464
Current liabilities			
Trade and other payables	14	**113,205**	133,165
Bank loans		**260,000**	224,000
Obligations under finance leases		**22,605**	22,565
Current taxation		**1,918**	4,987
		397,728	384,717
Net current assets		**55,644**	46,747
Total assets less current liabilities		**642,405**	643,333

The accompanying notes form part of this interim financial report.

Consolidated statement of financial position (Continued)

As at 30 June 2014 - unaudited

(Expressed in Renminbi)

	Note	**At 30 June 2014 RMB'000**	At 31 December 2013 RMB'000
Non-current liabilities			
Interest-bearing borrowings		**9,000**	-
Obligations under finance leases		**32,009**	41,183
Deferred tax liabilities		**185**	750
		41,194	41,933
Net assets		**601,211**	601,400
Equity			
Capital		**50,577**	50,577
Reserves		**550,634**	550,823
Total equity		**601,211**	601,400

The accompanying notes form part of this interim financial report.

Consolidated statement of changes in equity

For the six months ended 30 June 2014 - unaudited

(Expressed in Renminbi)

	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Statutory surplus reserve RMB'000	Other reserve RMB'000	Retained earnings RMB'000	Total equity RMB'000
Balance at 1 January 2013	50,577	74,447	(909)	52,699	119,359	288,656	584,829
Change in equity for the six months ended 30 June 2013:							
Profit and total comprehensive income for the period	-	-	-	-	-	22,625	22,625
Dividends approved in respect of the previous year	-	-	-	-	-	(5,000)	(5,000)
Balance at 30 June 2013	50,577	74,447	(909)	52,699	119,359	306,281	602,454
Balance at 1 January 2014	**50,577**	**74,447**	**(909)**	**55,308**	**119,359**	**302,618**	**601,400**
Change in equity for the six months ended 30 June 2014:							
Profit and total comprehensive income for the period	**-**	**-**	**-**	**-**	**-**	**7,411**	**7,411**
Dividends approved in respect of the previous year	**-**	**-**	**-**	**-**	**-**	**(7,600)**	**(7,600)**
Balance at 30 June 2014	**50,577**	**74,447**	**(909)**	**55,308**	**119,359**	**302,429**	**601,211**

The accompanying notes form part of this interim financial report.

Condensed consolidated cash flow statement

For the six months ended 30 June 2014 - unaudited

(Expressed in Renminbi)

	Note	Six months ended 30 June	
		2014	2013
		RMB'000	RMB'000
Operating activities			
Cash generated from operations		**22,305**	35,156
Tax paid		**(2,362)**	(7,787)
Net cash generated from operating activities		**19,943**	27,369
Investing activities			
Payment for the purchase of fixed assets		**(42,069)**	(88,380)
Other cash flows arising from investing activities		**(19,297)**	73,662
Net cash used in investing activities		**(61,366)**	(14,718)
Financing activities			
Cash flows arising from financing activities		**28,021**	(38,850)
Net cash generated from / (used in) financing activities		**28,021**	(38,850)
Net decrease cash and cash equivalents		**(13,402)**	(26,199)
Cash and cash equivalents at 1 January		**102,375**	136,554
Cash and cash equivalents at 30 June	13	**88,973**	110,355

The accompanying notes form part of this interim financial report.

Notes to the unaudited interim financial report
(Expressed in Renminbi unless otherwise indicated)

1 Basis of preparation

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard (IAS) 34, *Interim financial reporting*, issued by the International Accounting Standards Board ("IASB"). It was authorised for issue on 25 August 2014.

The interim financial report has been prepared in accordance with the same accounting policies adopted by Silverman Holdings Limited (the "Company") and its subsidiaries (collectively, the "Group") in the preparation of the consolidated financial statements for the year ended 31 December 2013, except for the accounting policy changes that are expected to be reflected in the 2014 annual financial statements. Details of these changes in accounting policies are set out in note 2.

The preparation of an interim financial report in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2013 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with International Financial Reporting Standards ("IFRSs").

The interim financial report is unaudited, but has been reviewed by the Audit Committee of the Company.

The financial information relating to the financial year ended 31 December 2013 that is included in the interim financial report as being previously reported information does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2013 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 21 March 2014.

2 Changes in accounting policies

The IASB has issued the following amendments to IFRSs and one new interpretation that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

- Amendments to IFRS 10, IFRS 12 and IAS 27, *Investment entities*
- Amendments to IAS 32, *Offsetting financial assets and financial liabilities*
- Amendments to IAS 36, *Recoverable amount disclosures for non-financial assets*
- Amendments to IAS 39, *Novation of derivatives and continuation of hedge accounting*
- IFRIC 21, *Levies*

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

Amendments to IFRS 10, IFRS 12 and IAS 27, Investment entities

The amendments provide consolidation relief to those parents which qualify to be an investment entity as defined in the amended IFRS 10. Investment entities are required to measure their subsidiaries at fair value through profit or loss.

Amendments to IAS 32, Offsetting financial assets and financial liabilities

The amendments to IAS 32 clarify the offsetting criteria in IAS 32. The amendments do not have an impact on the Group's interim financial report as they are consistent with the policies already adopted by the Group.

Amendments to IAS 36, Recoverable amount disclosures for non-financial assets

The amendments to IAS 36 modify the disclosure requirements for impaired non-financial assets. Among them, the amendments expand the disclosures required for an impaired asset or CGU whose recoverable amount is based on fair value less costs of disposal. The Group early adopted the amendments in the annual financial statements for the year ended 31 December 2013.

Amendments to IAS 39, Novation of derivatives and continuation of hedge accounting

The amendments to IAS 39 provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. The amendments do not have an impact on the Group's interim financial report as the Group has not novated any of its derivatives.

2 **Changes in accounting policies (continued)**

IFRIC 21, Levies

The Interpretation provides guidance on when a liability to pay a levy imposed by a government should be recognised. The amendments do not have an impact on the Group's interim financial report as the guidance is consistent with the Group's existing accounting policies.

3 **Turnover and segment information**

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

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Sales of textile products:		
- Dobby grey fabrics	**249,626**	277,575
- Jacquard grey fabrics	**95,422**	97,915
- Others	**5,257**	3,389
	350,305	378,879
Processing services income	**11,794**	8,992
	362,099	387,871

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

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
The PRC	**325,321**	322,620
Overseas	**36,778**	65,251
	362,099	387,871

4 Other net gains

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Government grants	**262**	1,779
Net gain on sale of scrap materials	**913**	1,693
Net gain on disposal of fixed assets	**457**	-
Others	**(248)**	295
	1,384	3,767

5 Profit before taxation

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

(a) Finance income and finance costs

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Finance income		
Interest income	**(729)**	(2,501)
Foreign exchange gain	**(28)**	(13,716)
	(757)	(16,217)
Finance costs		
Interest on borrowings	**7,035**	7,947
Less: interest capitalised into property, plant and equipment	**-**	(1,070)
Interest expenses	**7,035**	6,877
Finance charges on obligations under finance leases	**1,757**	399
Foreign exchange loss	**498**	725
Other finance charges	**889**	343
	10,179	8,344

5 Profit before taxation (continued)

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

(b) Other items

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Depreciation	**33,031**	32,210
Amortisation		
- leasehold land	**535**	99
- intangible assets	**9**	22

6 Income tax

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Current tax	**(707)**	7,532
Deferred tax	**(565)**	580
	(1,272)	8,112

(i) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in those jurisdictions.

(ii) The Group's Hong Kong subsidiaries, being investment holding companies, do not derive income subject to Hong Kong Profits Tax. For the six months ended 30 June 2014, Hong Kong Profits Tax rate is 16.5% (2013: 16.5%). The payments of dividends by the subsidiaries incorporated in Hong Kong are not subject to withholding tax.

(iii) The statutory tax rate applicable to the subsidiaries established in the PRC was 25% (2013: 25%).

(iv) Dividends receivable by non-PRC resident corporate investors from PRC-residents are subject to withholding tax at 10%, unless reduced by tax treaties or arrangements, for profit earned since 1 January 2008. YSL (HK) Ltd. and Huiyin (HK) Ltd., Hong Kong subsidiaries of the Company, would be subject to the PRC dividend withholding tax on dividends receivables from their PRC subsidiaries.

7 Earnings per share

The calculation of basic and diluted earnings per share for the six months ended 30 June 2014 is based on the profit attributable to equity shareholders of the Company of RMB 7,411,000 (six months ended 30 June 2013: RMB22,625,000) and the weighted average of 800,000,000 shares (six months ended 30 June 2013: 800,000,000 shares), in issue during the interim period.

There was no difference between basic and diluted earnings per share as there were no dilutive potential shares outstanding for the six months ended 30 June 2014 and 2013 respectively.

8 Dividends

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

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Interim dividend declared after the interim period of RMB nil per share (2013: RMB nil)	**-**	-

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

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Final dividend in respect of the previous financial year, approved during the following interim period	**7,600**	5,000

The final dividend in respect of the financial year ended 31 December 2013 was paid in July 2014.

9 Fixed assets

During the six months ended 30 June 2014, the Group acquired items of property, plant and machinery with a cost of RMB20,130,000 (six months ended 30 June 2013: RMB80,000,000) and interests in leasehold land under operating leases with a cost of RMB4,668,000 (six months ended 30 June 2013: RMB36,570,000). Items of fixed assets with a net book value of RMB367,000 were disposed of during the six months ended 30 June 2014 (six months ended 30 June 2013: RMB nil), resulting in a gain on disposal of RMB457,000 (six months ended 30 June 2013: RMB nil).

10 Short-term investments

	At 30 June 2014 RMB'000	At 31 December 2013 RMB'000
Investment in an asset management plan, designated as at fair value through profit or loss	**20,000**	-

The asset management plan is managed by ICBC Credit Suisse Asset Management Co., Ltd. The investment is capital-guaranteed and will be matured within one year.

11 Trade and other receivables

As of the end of the reporting period, the ageing analysis of trade debtors and bills receivable (which are included in trade and other receivables), based on the invoice date (or date of revenue recognition, if earlier) and net of allowance for doubtful debts, is as follows:

	At 30 June 2014 RMB'000	At 31 December 2013 RMB'000
Current	**95,931**	87,821
Less than 3 months past due	**236**	1,636
3 to 6 months past due	**4,350**	9
6 to 12 months past due	**1,898**	1,732
Trade debtors and bills receivable, net of allowance for doubtful debts	**102,415**	91,198
Prepayments relating to purchases of raw materials	**30,596**	32,598
Prepayments relating to purchases of fixed assets	**13,085**	10,137
Deferred expenses	**5,868**	4,527
Value-added tax recoverable	**14,008**	14,544
Other receivables	**7,516**	6,199
	173,488	159,203
Deferred expenses expected to be recognised as expense after more than one year	**(2,396)**	(3,103)
	171,092	156,100

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

12 Pledged bank deposits

	At 30 June 2014 RMB'000	At 31 December 2013 RMB'000
Guarantee deposits for issuance of commercial bills and bank acceptance	**8,008**	9,826

13 Cash and cash equivalents

	At 30 June 2014 RMB'000	At 31 December 2013 RMB'000
Bank deposits	**88,920**	102,352
Cash in hand	**53**	23
	88,973	102,375

14 Trade and other payables

As of the end of the reporting period, the ageing analysis of trade creditors and bills payables (which are included in trade and other payables), based on the invoice date, is as follows:

	At 30 June 2014 RMB'000	At 31 December 2013 RMB'000
Due within 3 months or on demand	**47,470**	62,614
Due after 3 months but within 6 months	**2,432**	1,754
Due after 6 months but within 12 months	**2,546**	2,589
Trade creditors and bills payable	**52,448**	66,957
Payables relating to purchases of fixed assets	**14,222**	29,369
Accrued charges	**11,901**	13,697
Receipts in advance	**10,143**	12,554
Dividends payable	**7,600**	-
Taxes payable other than income tax	**6,873**	1,593
Advance from an entity	**5,926**	4,979
Other payables	**4,092**	4,016
	113,205	133,165

15 Fair value measurement of financial instruments

(i) Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in IFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date

- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available

- Level 3 valuations: Fair value measured using significant unobservable inputs

The Group has a team headed by the finance manager performing valuations for the financial instruments. The team reports directly to the chief financial officer and the audit committee. A valuation report with analysis of changes in fair value measurement is prepared by the team at each interim and annual reporting date, and is reviewed and approved by the chief financial officer. Discussion of the valuation process and results with the chief financial officer and the audit committee is held twice a year, to coincide with the reporting dates.

	Fair value at 30 June 2014 RMB'000	**Fair value measurements as at 30 June 2014 categorised into**		
		Level 1 RMB'000	**Level 2 RMB'000**	**Level 3 RMB'000**
Financial assets:				
Investment in an asset management plan, designated as at fair value through profit or loss	**20,000**	**-**	**20,000**	**-**

	Fair value at 31 December 2013 RMB'000	Fair value measurements as at 31 December 2013 categorised into		
		Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
Financial assets:				
Investment in an asset management plan, designated as at fair value through profit or loss	-	-	-	-

15 Fair value measurement of financial instruments (continued)

(i) Fair value hierarchy (continued)

During the six months ended 30 June 2014, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (2013: nil). The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

(ii) Valuation techniques and inputs used in Level 2 fair value measurements

The fair value of the investment in an asset management plan is estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

16 Commitments

As at 30 June 2014, the Group had capital commitments in respect of property, plant and equipment not provided for in the condensed consolidated interim financial statements as follows:

	At 30 June 2014 RMB'000	At 31 December 2013 RMB'000
Contracted for	**28,050**	15,968

17 Material related party transactions

Remuneration for key management personnel of the Group is as follows:

	Six months ended 30 June	
	2014 RMB'000	2013 RMB'000
Short-term employee benefits	**873**	614
Post-employment benefits	**17**	16
	890	630

By order of the Board
Silverman Holdings Limited
LIU Dong
Chairman

Shandong, the PRC
25 August 2014