



銀仕來

# 2013 ANNUAL REPORT



SILVERMAN HOLDINGS LIMITED

( Incorporated in the Cayman Islands with limited liability )  
( Stock Code: 1616 )



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## CORPORATE INFORMATION

### 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, Uglan 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

**Compliance adviser**

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

## CHAIRMAN'S STATEMENT

Dear Shareholders,

It is my pleasure to present on behalf of the board of directors (the "Board" or "Board of Directors") of Silverman Holdings Limited ("Silverman" or the "Company") the audited consolidated results of the Company together with its subsidiaries (collectively, the "Group") for the year ended 31 December 2013 (the "Year" or "Period under Review").

In 2013, China's textile industry has continued the basic running situation of 2012. Despite a recovery of the economy of the United States of America (USA) to some extent, the European economy still recovered slowly. In addition, with the impact from slowdown of domestic economy, continued appreciation of RMB, rising in the labour cost and, in particular, the big price difference between the domestic and overseas cotton, China's textile enterprises encountered great pressure.

During the Year, the Group's revenue was approximately RMB774.6 million, representing a decrease of approximately 11.1% as compared with that of 2012. Profit attributable to shareholders of the Company was approximately RMB21.6 million, earnings per share was approximately RMB0.03, representing a decrease of approximately 70.9% as compared to that of 2012. The decrease in profit was mainly due to a drop in the average selling price of the textile products of the Group, and the increase in the labour cost and research and development expenses caused by the decline in the international and domestic economy. In 2013, one of subsidiaries of the Group, i.e., Zibo Yinshilai Textile Co., Ltd. (淄博銀仕來紡織有限公司) lost the status of High and New Tech Enterprise, which also imposed certain adverse impact on the operating results of the Group. The Board recommends the payment of a final dividend for the year ended 31 December 2013 of RMB0.0095 per share (including tax).

Despite the complex domestic and international economic situation, during the year under review, the Group still firmly implemented its core strategy and continued to consolidate the development of its principal business. By leveraging on its mature and stable innovation system and advantages of market resources, the Group has maintained 100% of operation rate and realized balance in production and sale. Furthermore, the Group emphasized more on the lean management, implemented energy saving measures, optimized the resource mix and strengthened our internal management and costs control in order to alleviate the impact of the adverse factors and maintain its leading position in the designated market and the Group once again ranked the 6<sup>th</sup> in "2012-2013 China Top 20 Cotton Textile Industry Competitiveness of Enterprises" (「2012-2013 年度中國棉紡織行業競爭力 20 強企業」). In view of this, Mr. LIU Dong, being the Chairman of the Board, was awarded the title of "2012 Innovative Person in Textile Industry" (「2012 年紡織行業年度創新人物」) in April 2013. Furthermore, the Group was awarded the first "Mayor Quality Award of Zibo City" (「淄博市市長質量獎」) in March 2013. In addition, the project of "New Spinning Project of 100,000 Spindle" ("10 萬紗錠新型紡紗項目") invested by the listing proceeds of the Group also goes smoothly and is expected to be in full operation in the first half year of 2014.

During the Year, the 18th session of the central committee of the third plenary session released "the Decision of the Committee of Communist Party of China on Comprehensive Deepening Reform of Certain Major Issues" (「中共中央關於全面深化改革若干重大問題的決定」), had great promotion effect on the major problems currently existing in China's textile industry, including raw materials, independent innovative capability, energy conservation and environmental protection, regional structure adjustment and optimization, etc. In particular, with the termination of the national cotton storage policy since 2014, the "cotton direct subsidies policy" (「棉花直補政策」)

will be implemented, which means the regulation mode will be adjusted from directly intervening the cotton price through administrative means of the government to market regulation. In addition, in order to assist the enterprises to cope with difficulties such as the weak foreign demand and the rising cost, the Chinese government timely issued 12 policy measures to promote the steady growth of the import and export and structure adjustment at the end of July 2013, in order to improve the convenience of trading and strengthen the trade financing support. With gradual effect of those policy and measures and warming demand in domestic and foreign market, the pressure of cost and operation of China's textile enterprises are expected to be gradually relieved.

The management of the Company and I will, apart from paying close attention to global economy and changes in industry environment, continue to focus on the construction of the core competence in order to ensure the achievement of sustainable development of the company and maximize the interests of shareholders. On behalf of the Board, I hereby also would like to express my sincere thanks to all the shareholders, customers and staff for their continuous support and contributions.

By order of the Board  
**Silverman Holdings Limited**

**LIU Dong**  
*Chairman*

Shandong, the PRC  
21 March 2014

## FINANCIAL SUMMARY

## Year ended 31 December

in RMB'000	2013	2012	2011	2010	2009
<b>RESULTS</b>					
Turnover	<b>774,577</b>	871,395	927,774	773,767	529,708
Profit before taxation	<b>32,122</b>	91,144	187,886	131,756	42,350
Income tax	<b>10,551</b>	17,110	25,760	26,197	1,555
Profit for the year	<b>21,571</b>	74,034	162,126	105,559	40,795

## As at 31 December

in RMB'000	2013	2012	2011	2010	2009
<b>ASSETS AND LIABILITIES</b>					
Total assets	<b>1,028,050</b>	1,039,920	959,769	1,034,522	851,807
Total liabilities	<b>426,650</b>	455,091	701,666	938,613	477,050
Net assets	<b>601,400</b>	584,829	258,103	95,909	374,757

## MANAGEMENT DISCUSSION AND ANALYSIS

### INDUSTRY OVERVIEW

In 2013, China's textile industry has continued the basic running situation of 2012. Despite of a recovery of the economy of the United States of America (USA) to some extent, the European economy still recovered slowly. In addition, with the impact from the slowdown of domestic economy, continued appreciation of RMB, rising in the labour cost and, in particular, the big price difference between the domestic and overseas cotton, China's textile enterprises encountered great pressure.

According to China Customs Data, the amount of China's export for textile materials and products was approximately USD274.0 billion in 2013, represents an increase of approximately 11.0% as compared to the previous year, which has been recovered in growth as compared to that of 2012. Nevertheless, the monthly growth of the export appeared great fluctuation during the Year, and the export destination regions showed extreme imbalance as well. Take pure cotton grey fabric for example, the aggregate quantity exported for pure cotton grey fabric in China was approximately 2.72 billion meters in 2013, represents an increase of approximately 41.7% as compared to the previous year. Nevertheless, quantity exported to the Asian markets such as Vietnam and Philippines occupied nearly 50% of the total quantity exported which showed that the markets in Europe and USA, as the representatives of high-end textile consumption market, recovered slowly. On the other hand, with the impact of the labour costs and price difference in cotton, the advantages of China's textiles industry are gradually replaced by South-east countries with lower labour cost.

Domestically, according to the data released by the National Bureau of Statistics, the growth of the industrial added value appeared gradual slowdown month by month in 2013. The annual growth was approximately 8.7%, a decrease of approximately 3.5 percentage points as compared to that of 2012. For the product output, the output growth of the main category products generally dropped. The output growth of the main products, such as chemical fiber, yarn, fabric and clothing, has dropped as compared to that of 2012, in which, the output growth of fabric decreased approximately 7 percentage points as compared to that of the previous year. In domestic demand, the aggregate retail sales for clothing, shoes, hat, knitwear and textiles above the limited amount amounted to approximately RMB11.89 trillion, represents an increase of approximately 11.5% as compared to the previous year, which was approximately 6.5% drop in the growth rate as compared to that of 2012 and approximately 1.6 percentage points lower than the growth of aggregate retail sales of national social consuming goods.

In policy aspect, the 18th session of the central committee of the third plenary session released "the Decision of the Committee of Communist Party of China on Comprehensive Deepening Reform of Certain Major Issues" (「中共中央關於全面深化改革若干重大問題的決定」), had great promotion effect on the major problems currently existing in China's textile industry, including raw materials, independent innovative capability, energy conservation and environmental protection, regional structure adjustment and optimization etc. In particular, with the termination of the national cotton storage policy since 2014, the "cotton direct subsidies policy" (「棉花直補政策」) will be implemented, which means the regulation mode will be adjusted from directly intervening the cotton price through administrative means of the government to market regulation. In addition, in order to assist the enterprises to cope with difficulties such as the weak foreign demand and the rising cost, the Chinese government timely issued 12 policy measures to promote the steady growth of the import and export and structure adjustment at the end of July 2013, in order to improve the convenience of trading and strengthen the trade financing support. With gradual effect of these policy and measures and warming demand in domestic and foreign market, the pressure of cost and

operation of China's textile enterprises are expected to be gradually relieved.

## BUSINESS REVIEW

Facing the complex domestic and international economic situation and the increasing uncertainties in 2013, the Group firmly implemented its core strategy and continued to consolidate the development of its principal business. By leveraging on its mature and stable innovation system and advantages of market resources, the Group has maintained 100% of operation rate and realized balance in production and sale in 2013. Furthermore, the Group emphasized more on the lean management, implemented energy saving measures, optimized the resource mix and strengthened our internal management and costs control in order to alleviate the impact of the adverse factors and maintain its leading position in the designated market. Nevertheless, influenced by aforementioned adverse factors, the average selling price of the textile products of the Company dropped, and the labour cost and research and development expenses of the Company increased, which resulted in a decline in the operating results of the Group. In 2013, one of subsidiaries of the Group, i.e, Zibo Yinshilai Textile Co., Ltd. (淄博銀仕來紡織有限公司) lost the status of High and New Tech Enterprise, which also imposed certain adverse impact on the operating results of the Group.

During the Period under Review, the Group's main business revenue was approximately RMB774.6 million, representing a decrease of approximately 11.1% as compared with approximately RMB871.4 million in the previous year. The decrease was mainly due to the decline of the product selling price. Profit attributable to equity shareholders of the Company was approximately RMB21.6 million, representing a decrease of approximately 70.9% as compared with approximately RMB74.0 million in the previous year. The decrease in profit was mainly due to the drop in the average selling price of the textile products of the Group, and the increase in the labour cost and research and development expenses caused by the decline in the international and domestic economy.

The innovative performance of the Group has continued to raise its industry image and social influence and it was once again ranked the 6<sup>th</sup> in "2012-2013 China Top 20 Cotton Textile Industry Competitiveness of Enterprises" (「2012-2013 年度中國棉紡織行業競爭力 20 強企業」). In view of this, Mr. LIU Dong, being the Chairman of the Board, was awarded the title of "2012 Innovative Person in Textile Industry" (「2012 年紡織行業年度創新人物」) in April 2013. Furthermore, the Group was awarded the first "Mayor Quality Award of Zibo City" (「淄博市市長質量獎」) in March 2013.

## FINANCIAL REVIEW

### Turnover, gross profit and gross profit margin

The table below is an analysis of the Group's turnover, gross profit and gross profit margin of its major product categories for the two years ended 31 December 2013 and 2012:

Product	For the year ended 31 December					
	2013			2012		
	Turnover RMB'000	Gross profit RMB'000	Gross profit margin %	Turnover RMB'000	Gross profit RMB'000	Gross profit margin %
Jacquard grey fabrics	210,652	28,993	13.8%	195,237	43,758	22.4%
Dobby grey fabrics	526,771	60,042	11.4%	647,892	122,830	19.0%
Processing service income	24,842	2,386	9.6%	10,166	1,086	10.7%
Others	12,312	1,804	14.7%	18,100	2,608	14.4%
<b>Total</b>	<b>774,577</b>	<b>93,225</b>	<b>12.0%</b>	<b>871,395</b>	<b>170,282</b>	<b>19.5%</b>

The gross profit margin of the Group decreased by approximately 7.5 percentage points, from approximately 19.5% for the year 2012 to approximately 12.0% for the year 2013. The decrease of the major products gross profit margins and the overall gross profit margin were mainly due to (i) the decrease of product selling price of the Group, and (ii) the increase in the labour cost compared to that of the previous year. In addition to the costs control, the Group developed the new and special products according to the market demand, will further optimize the product mix, and will implement flexible and effective marketing strategy in order to maximize the Group's gross profit margin.

### Other net gains

Other net gains and losses mainly included net (loss) / gain on sale of scrap material, financial guarantee issued, government grants and others. The total amount of other net gains for the Period under Review substantially increased by approximately RMB3.6 million to approximately RMB5.8 million as compared to approximately RMB2.2 million in the previous year.

### Distribution costs

The total distribution costs of the Group increased by approximately 2.8% to approximately RMB13.4 million for the year ended 31 December 2013 from approximately RMB13.0 million in the previous year. Such increase was mainly due to the increases in port surcharges and labour cost when compared to those in the previous year.

## Administrative expenses

For the year ended 31 December 2013, the administrative expenses of the Group was approximately RMB53.7 million, representing a decrease of approximately 12.3% when compared to that of approximately RMB61.2 million in 2012. The decrease was mainly due to the decrease in the non-recurring listing expenses, impairment of other receivables and wages and welfare of management in 2013.

## Net finance costs

During the year ended 31 December 2013, the net finance income of the Group was approximately RMB0.19 million, this was due to the decrease in finance cost and the increase of finance income, as compared to that in 2012. For the year ended 31 December 2013, the finance cost of the Group was approximately RMB19.9 million, representing a decrease of approximately RMB2.5 million as compared to approximately RMB22.4 million in 2012. It was mainly due to the decrease in interest expenses resulted from the decrease in bank loans. The finance income was approximately RMB20.1 million, representing an increase of approximately RMB4.8 million as compared to approximately RMB15.3 million in 2012, which was mainly resulted from the increase in the net exchange gains in 2013 as compared to that of 2012.

## Taxation

Taxation of the Group decreased by approximately 38.3% from approximately RMB17.1 million in 2012 to approximately RMB10.6 million in Period under Review. This was mainly due to the decrease in taxable profit and the expiration of tax holding entitled by a subsidiary of the Group during the Period under Review.

## Profit attributable to the equity shareholders of the Company

For the year ended 31 December 2013, the profit attributable to the equity shareholders of the Company was approximately RMB21.5 million, representing a decrease of approximately 70.9 %, from approximately RMB74.0 million as compared to that of 2012. The decrease was mainly due to the drop of the product selling price, the increase of production costs, the increase of staff wages in 2013. Based on the aforementioned adverse factors, the gross profit margin for the year ended 31 December 2013 dropped to approximately 12.0%, or by 7.5 percentage points, from that of approximately 19.5% in 2012. As a consequence, the gross profit dropped by approximately 45.3%, or approximately RMB77.1 million, to approximately RMB93.2 million for the year ended 31 December 2013 from that of approximately RMB170.3 million in the previous year.

## Liquidity and financial resources

As at 31 December 2013, cash and cash equivalents of the Group were approximately RMB102.4 million, representing a decrease of approximately 25.0% from approximately RMB136.6 million as at 31 December 2012. The decrease was mainly due to the increase of the intensity in payment collection offset by the Company's investment in the new production line.

For the year ended 31 December 2013, the Group's net cash generated from operating activities was approximately RMB92.4 million (2012: approximately RMB74.0 million), net cash generated from investing activities was approximately RMB46.3 million (2012: net cash used in investing activation was approximately RMB62.3 million) and net cash used in financing activities was approximately RMB172.8 million (2012: approximately RMB5.4 million). Cash and cash

equivalents as at 31 December 2013 decreased by approximately RMB34.2 million (2012: increased by approximately RMB6.3 million) during the Period under Review. 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 year ended 31 December 2013, the average trade receivables (including bills receivable) turnover period of the Group was approximately 43 days, up from 34 days for the year ended 31 December 2012. The increase was mainly because the Group has granted qualified customers with sound credit records longer credit terms in order to attract more customers' orders.

For the year ended 31 December 2013, inventory turnover period of the Group increased to 86 days from 85 days in the previous year. This was mainly because of the increase in stock level of finished goods. In particular, the finished goods increased to approximately 65.9 million as at 31 December 2013 from approximately RMB60.4 million as at 31 December 2012.

As at 31 December 2013, the Group's borrowings (including obligations under finance lease) of approximately RMB267.7 million (2012: approximately RMB285.0 million) bore fixed interest at rates ranging from 4.5% to 7.1% (2012: 3.55% to 7.22%) per annum. As at 31 December 2013, the Group's borrowings of approximately RMB20 million (2012: approximately RMB74.9 million) bore floating interest at rate 6.0% per annum (2012: 2.95% to 4.55%).

### **Trade and bill receivables**

Trade and bill receivables were approximately RMB91.2 million as at 31 December 2013 as compared to that of approximately RMB82.0 million as at 31 December 2012. The increase was mainly because the Group has granted qualified customers with sound credit records a longer credit terms in order to obtain more customers' orders.

### **Earnings per share**

Calculating based on the weighted average of 800,000,000 shares in issue, basic earnings per share of the Company were approximately RMB0.03 for the year ended 31 December 2013 (2012: approximately RMB0.10).

### **Treasury policies**

The Group has adopted a prudent financial management approach towards its treasury policies and thus maintained a healthy liquidity position throughout the period under review. The Group strives to reduce exposure to credit risk by performing ongoing credit assessments and evaluations of the financial status of its customers. To manage liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and other commitments can meet its funding requirements from time to time.

## 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 31 December 2013, the debts of the Group were mainly represented by bank borrowings and obligations under finance leases with a total amount of approximately RMB287.7 million (2012: approximately RMB359.9 million). As at 31 December 2013, cash and cash equivalents were approximately RMB102.4 million (2012: approximately RMB136.6 million). As at 31 December 2013, the gearing ratio was approximately 30.8% (2012: approximately 38.1%), 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 31 December 2013, the debts of the Group approximately RMB246.6 million (2012: RMB 359.9 million) will become due within a year.

As at 31 December 2013, the Group's cash and cash equivalents were mainly held in Renminbi, Japanese Yen, US dollars, HK dollars and Euro, of which, approximately RMB87.9 million (2012: RMB85.5 million) or 85.8% (2012: 62.6%) of the cash and cash equivalents were held in Renminbi.

## Capital commitments

Save as disclosed in notes 26, the Group did not have any other significant capital commitments as at 31 December 2013 (2012: RMB9.3 million).

## Employee and remuneration policy

As at 31 December 2013, the Group had a total of approximately 2,910 employees (2012: 2,420), the increase in the number of staff as compared to that of the previous year was mainly because the Group recruited more employees for its expanded spinning production line in 2013.

For the year ended 31 December 2013, labour costs of the Group (including Directors' remuneration in the form of salaries and other allowances) were approximately RMB115.2 million (2012: approximately RMB94.4 million). The increase of labour costs was mainly due to the Group recruited more staff for the new production line and the increase of wages.

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. In 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.

**Exposure to foreign exchange risk**

The Group adopted a prudent policy in managing its exchange rate risks. The imports and exports of the Group were settled in US dollars. The repayment period of the import purchases 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 31 December 2013, the Group did not have any contingent liabilities (2012: Nil).

**Charges on assets**

Save as the pledged bank deposits as presented in the consolidated statement of financial position, the Group pledged its machinery and equipment with net book value of approximately RMB50.6 million (2012: RMB68.2 million) to banks as securities for the bank borrowings as at 31 December 2013. Besides, machinery and equipment with net book value of approximately RMB76.2 million (2012: RMB 60.9 million) were held under finance lease as at 31 December 2013.

**Significant investments held**

Save as the investments in equity securities presented in the consolidated statement of financial position, the Group did not hold any significant investment in equity interest in any company during the year ended 31 December 2013.

**Future plans for material investments and capital assets**

Save as disclosed in the Prospectus, the Group did not have any other plans for material investments and capital assets.

**Material acquisitions and disposals of subsidiaries and affiliated companies**

During the year ended 31 December 2013, the Group did not have any material acquisitions and disposals of subsidiaries and affiliated companies.

**Events after the reporting period**

No significant event took place before the date of this annual report and subsequent to 31 December 2013.

## OUTLOOK

Looking ahead, despite of the economic slowdown, China is still the most active economic region in the world. With its huge population and sustainable growth in the disposable income, the increasing demand of Chinese people for natural, healthy, environmental and comfortable properties and the putting-forward of the policy of speeding-up the urbanization, the Group holds an optimistic attitude on China's home textile and fabric market which is expected to maintain a growth with certain speed over a long period in future. This is also the grounds for the Group's construction of new production line.

The projects regarding the use of the Net IPO proceeds of the Group in July 2012 have been gradually put into production since the fourth quarter of 2013 and are expected to gradually realize profit in 2014. With the marketization process of China's cotton price, the problem of price difference between domestic and oversea cotton which has enormously influenced on the current operation and future development of the Group was expected to be resolved step by step. In future, the Group will continue to focus on its core strategy and further improve its research and development and innovative capability and the technological content of the product. On this basis, the Group intends to submit the application for recognition as a "High and New Technology Enterprise" again for its subsidiaries, i.e, Zibo Yinshilai Textile Co., Ltd. (淄博銀仕來紡織有限公司) and Zibo Huiyin Textile Co., Ltd. (淄博匯銀紡織有限公司) this year. Furthermore, the Group will further explore the potential and strengthen the management; continue to implement energy saving, increase income and reduce expenses in order to improve the Group's profitability.

We firmly believe that, by further improving our innovation, continuously consolidating our market position and enhancing our good image of "Yinshilai" brand, the Group will be able to take full advantages of the fast growth of China's economy and home textile industry and rapidly grow into a leading enterprise in China high-end home textile fabric industry.

**DIRECTORS AND SENIOR MANAGEMENT PROFILE**

Our Board of Directors is responsible and has general powers for the management and conduct of the business. The Board currently consists of six directors (the “Directors”, each a “Director”), including three executive Directors, and three independent non-executive Directors. The following table sets forth information regarding members of the Board as at the date of this annual report:

<b>Name</b>	<b>Appointment Date</b>
<b>Executive Directors</b>	
LIU Dong (Chairman)	24 February 2010
LIU Zongjun	26 June 2012
TIAN Chengjie	26 June 2012
<b>Independent non-executive Directors</b>	
ZHU Ping	26 June 2012
LAM Kai Yeung	26 June 2012
CHANG Tao	21 March 2014

**DIRECTORS AND SENIOR MANAGEMENT PROFILE (CONTINUED)****Executive Directors**

**Mr. LIU Dong (劉東)**, aged 45, is the Chairman, an executive Director and the Chief Executive Officer of our Company appointed on 24 February 2010, and one of our Controlling Shareholders. Mr. LIU has been with our Group since the acquisition of the equity interest of Zibo Yinshilai Textile Co., Ltd. (淄博銀仕來紡織有限公司) (“Yinshilai Textile”) by Zibo Yinshan Chemical Fiber Co., Ltd. (淄博銀杉化纖有限公司) (“Yinshan Chemical Fiber”) in June 2005. Mr. Liu is currently the legal representative and a director of Yinshilai Textile and was firstly appointed to such posts in September 2005. Mr. LIU was appointed as a Director of our Company on 24 February 2010. He is also a director of each subsidiary of our Group (except Zibo Huiyin Textile Co., Ltd. (淄博匯銀紡織有限公司) (“Huiyin Textile”). He is primarily responsible for overall business development, strategic planning and business development of our Group. Mr. LIU has accumulated 15 years of experience in the textile industry in the PRC, which can be traced back to 1996 when he was appointed as the general manager of Zibo Wanjie Fiber Co., Ltd. (淄博萬杰纖維有限公司). Mr. LIU had served as a deputy general manager of Zibo Wanjie Group Co., Ltd. (淄博萬杰集團有限公司), and subsequently as a director and general manager (between December 1998 and December 2001) and the chairman of the board of director (between December 2001 and November 2004) of Shandong Wanjie High-Tech Co. Ltd. (山東萬杰高科技股份有限公司) (“Wanjie High-Tech”). Mr. LIU studied in College of Textile Engineering of Shandong (山東紡織工學院) majoring in management and subsequently obtained a master of business administration degree from the Chinese Academy of Social Science in November 1998.

Mr. LIU was recognized as “Model Worker of the Textile Industry of the PRC” (全國紡織工業勞動模範) by the Ministry of Personnel of the PRC (中華人民共和國人事部) and China National Textile and Apparel Council (中國紡織工業協會) in 2006, “Outstanding Entrepreneur of the Zibo Municipality for the year 2006” (2006年度淄博市優秀企業家), “Outstanding Entrepreneur of the Zibo Municipality for the year 2008” (2008年度淄博市優秀企業家) and “Outstanding Entrepreneur of the Zibo Municipality for the year 2009” (2009年度淄博市優秀企業家) by the Zibo Municipal Committee of the Chinese Communist Party (中共淄博市委) and the People’s Government of Zibo Municipality (淄博市人民政府) in 2007 and 2010, respectively, “Star Entrepreneur of the Zibo Municipality for the year 2010” (2010淄博市明星企業家) by the Zibo Municipal Committee of the Chinese Communist Party (中共淄博市委) and the People’s Government of Zibo Municipality (淄博市人民政府) in 2011, “Outstanding Entrepreneur of the Shandong Province” (山東省優秀企業家) by Shandong Enterprise Confederation (山東省企業聯合會), Shandong Entrepreneur Association (山東省企業家協會), Shandong Industrial and Economics Confederation (山東省工業經濟聯合會) and Shandong Quality Association (山東省質量協會) in 2011, “Award for Outstanding Entrepreneurs of the Textile Industry of the Shandong Province” (山東省紡織企業家創業獎) by the Shandong Textile Industry Office (山東省紡織工業辦公室) and the Shandong Textile Enterprise Management Association (山東紡織企業管理協會) in 2007, one of the “Twelve Batch of Outstanding Young Entrepreneurs of the Zibo Municipality” (第十二屆淄博市傑出青年企業家) by the Zibo Municipal Committee of the Communist Youth League (共青團淄博市委), Zibo Municipal Economy and Trade Committee (淄博市經濟貿易委員會), the Zibo Municipal Administration for Industry and Commerce (淄博市工商行政管理局), the Zibo Municipal Department of Environmental Protection (淄博市環境保護局), the Zibo Municipal Association of Entrepreneur (淄博市企業家協會) and the Zibo Municipal

Association of Young Entrepreneur (淄博市青年企業家協會) in 2007, “Outstanding Persons of the Textile Brand Culture Development of the PRC for the year 2010” (2010中國紡織品牌文化建設傑出人物) by China National Textile and Apparel Council (中國紡織工業協會) and the Chinese Association for Textile Enterprises Culture Construction (中國紡織企業文化建設協會) in 2010, and “Boshan Star Entrepreneur for the year 2008” (2008年度博山區明星企業家), “Boshan Star Entrepreneur for the year 2010” (2010年度博山區明星企業家) and “Boshan Star Entrepreneur for the year 2011” (2011年度博山區明星企業家) by the Boshan District Committee of the Chinese Communist Party (中共博山區委) and the People’s Government of Boshan District (博山區人民政府) in 2009 and 2011, respectively. Mr. LIU is a representative of the Fourteenth People’s Congress of Zibo City (淄博市第十四屆人民代表大會).

**Mr. LIU Zongjun (劉宗君)**, aged 43, is an executive Director appointed on 26 June 2012 and our Vice President of Administration. He joined our Group as assistant to the chairman of the board of directors, deputy general manager and manager of the human resources department of Yinshilai Textile since April 2010. Mr. LIU was appointed as a director of Huiyin Textile in March 2012.

Mr. LIU is experienced in administrative management and has accumulated 15 years of experience in the textile industry. Between July 1993 and June 1994, Mr. LIU worked in the Shanghai office of Weifang Economic and Trade Centre (濰坊經濟貿易中心) governed by the Shandong Weifang Municipality Economic Committee (山東濰坊市經濟委員會). Between September 1994 and October 2004, Mr. LIU worked with Wanjie Group Co., Ltd. and held a series of positions including the role of executive in foreign economy and trade department of the Shanghai office, assistant to the general manager of Zibo Wanjie Fiber Co., Ltd. (淄博萬杰纖維有限公司) and assistant to the general manager and human resources manager of Wanjie High-Tech. Between October 2004 and April 2010, Mr. LIU served as general manager of Zibo Tianhao Weaving and Dyeing Co., Ltd. (淄博天浩織染有限公司).

Mr. LIU graduated from Shanghai Textile College (上海紡織高等專科學校) in July 1993, majoring in textile material chemical processing. He also obtained a bachelor degree in Chinese literature from Shandong University of Technology (山東理工大學) in January 2007.

**Mr. TIAN Chengjie (田成杰)**, aged 45, is an executive Director appointed on 26 June 2012 and secretary to the Board. Mr. Tian has been a deputy general manager of Yinshilai Textile in March 2005. In May 2006, he was also appointed as a deputy general manager and a director of Huiyin Textile. He is primarily responsible for administration, planning and human resources of our Group. Mr. TIAN has accumulated more than 17 years of experience in the textile industry in the PRC. Mr. TIAN had worked with Zibo Wanjie Fiber Co., Ltd. (淄博萬杰纖維有限公司) since December 1993 and held a series of positions including the role of workshop manager, the head of the spinning department, the head of the quality control department, the head of the business administration bureau, and an assistant to the general manager, and subsequently with Zibo Wanjie Group Co., Ltd. (淄博萬杰集團有限公司) serving as the head of the business administration bureau. Between December 1996 and November 2004, Mr. TIAN held a series of positions including the role of director and supervisor of Wanjie High-Tech. Mr. TIAN graduated from the College of Textile Engineering of Shandong (山東紡織工學院) in July 1990 majoring in chemical fiber studies and obtained a master of business administration degree from the Guanghua School of Management of the Peking University (北京大學光華管理學院) in May 2004.

Mr. TIAN was awarded the second prize of the “Modern and Innovative and Excellent Application of Enterprises Management of the Shandong Province Award” (山東省企業管理現代化創新及優

秀應用二等獎) by the Modern and Innovative Contribution of Enterprises Management of the Shandong Province Award Committee (山東省企業管理現代化創新成果評審委員會) in December 2010.

### Independent non-executive Directors

**Mr. ZHU Ping (朱平)**, aged 56, is an independent non-executive Director appointed on 26 June 2012. Mr. ZHU obtained a doctor degree majoring in textile chemistry and dyeing and finishing engineering from Donghua University (東華大學) (previously known as the China Textile University (中國紡織大學) in March 1999 and has been doing postdoctoral research in the University of Georgia from January 1999 to January 2000 and the University of California, Davis from January 2002 to June 2002, respectively.

Mr. ZHU is currently holding a number of posts in educational and professional institutions in relation to textile manufacturing. He is currently a distinguished professor under the scheme of “Chutian Scholar” (楚天學者) of the Department of Education of the Hubei Province, and the dean of the faculty of chemistry and chemical engineering, a supervisor of doctor degree and a distinguished professor under the scheme of “Sunshine Scholar” (陽光學者) of the Wuhan Textile University (武漢紡織大學), respectively. He is also a supervisor of doctor degree of the Huazhong University of Science and Technology (華中科技大學), Jiangnan University (江南大學) and Qingdao University (青島大學), a committee member of the “Supervising Committee on Professional Education of Light Chemical Engineering” (教育部輕化工程專業教學指導委員會) and the “Dyeing Professional Committee of China Textile Engineering Society” (中國紡織工程學會染整專業委員會) respectively, and a “State Council Expert for Special Allowance” (國務院特殊政府津貼專家). Since March 2008, he has held various posts with the Wuhan Textile University including the dean of the faculty of textile and material and the director of the “Key Laboratory of the Ministry of Education” (教育部重點實驗室).

Mr. ZHU was an associate professor and director of the teaching and research office on dyeing and finishing in the College of Textile Engineering of Shandong (山東紡織工學院) between June 1982 and May 1994, a professor, supervisor of master degree and deputy director of the department of chemical engineering of the college of textiles & fashion of the Qingdao University (青島大學) from May 1994 to January 2001, a professor, supervisor of doctor degree and the vice dean of the college of chemistry, chemical engineering and environment of the Qingdao University between June 2002 and March 2008, respectively.

Mr. ZHU was awarded the first prize (in April 2007) and the second prize in (November 2005 and April 2008) of the “Scientific Technology Award of the Shandong Province” (山東省科學技術獎) by the People’s Government of the Shandong Province, respectively, the second prize (in October 2000) and third prize (in December 1996 and December 1997) of the “Scientific and Technological Advancement of the Shandong Province” (山東省科學技術進步獎) award by the Scientific and Technological Advancement of the Shandong Province Committee (山東省科學技術進步獎評審委員會), respectively, the “Shandong Provincial Education Committee Certificate for Scientific and Technological Advancement” (山東省教育委員會科學技術進步獎勵證書) by the Shandong Provincial Education Committee (山東省教育委員會) in December 1997, and the third prize (in March 1996) and second prize (in December 1997) of the “Scientific and Technological Advancement of Qingdao Municipal Award” (青島市科學技術進步獎) by the Scientific and Technological Advancement of the Qingdao Municipal Committee (青島市科學技術進步獎評審委員會), respectively.

**Mr. LAM Kai Yeung (林繼陽)**, aged 44, is an independent non-executive Director appointed on 26 June 2012. Mr. LAM is a fellow of the Association of Chartered Certified Accountants (英國特許公認會計師公會) and a fellow of the Hong Kong Institute of Certified Public Accountants (香港會計師公會). Mr. LAM obtained a bachelor degree of accounting from Xiamen University (廈門大學) in July 1990 and a master degree in business administration from Oxford Brookes University in the United Kingdom in July 2010. Mr. LAM has been an independent non-executive director of Northeast Tiger Pharmaceutical Company Limited (東北虎藥業股份有限公司) (stock code: 8197), a company listed on the Growth Enterprise Market of the Stock Exchange, since 7 August 2008. He has also been the company secretary and qualified accountant of Hunan Nonferrous Metals Corporation Limited (湖南有色金屬股份有限公司) (stock code: 2626), a company listed on the Main Board, since 13 July 2006, and is also the chief financial officer of one of its associates. Mr. LAM is a standing committee member of China Merges and Acquisition Association (Hong Kong) and Shenzhen Hong M&A Club.

**Mr. CHANG Tao (常濤)**, aged 44, is an independent non-executive Director appointed on 21 March 2014. Mr. Chang majored in information management of administration department of Shandong Textile Industrial Institute (山東紡織工學院) (currently known as Qingdao University) and has obtained a bachelor degree in June 1992. Mr. Chang is a Certified Public Accountant and Certified Tax Agent in the PRC. Mr. Chang currently serves as the chief risk officer of Zibo Rongxin Financing Bonding Co., Ltd. (淄博融信融資擔保有限公司). He has commenced his career since July 1992 and has rich experience in financial management. Mr. Chang has been the staff member of the business department and enterprise business department of Bank of China Zibo Branch from July 1992 to December 2000; the Certified Public Accountant and project manager of Shandong Xincheng Accounting Firm Co., Ltd. (山東新誠會計師事務所有限公司), from January 2001 to July 2004; the general manager of Beijing Zhongqixin Accounting Firm Co., Ltd. (北京中齊信會計師事務所有限公司), from August 2004 to December 2010; and the deputy general manager of Shandong Kailai Investment Co., Ltd. (山東開來投資有限公司), from January 2011 to June 2013. Mr. Chang has served as an independent director of Shandong Wanjie High-Tech Co., Ltd. (山東萬傑高科技股份有限公司) (Stock Code: 600223, Shanghai Stock Exchange) during the period between November 2001 and October 2007.

## SENIOR MANAGEMENT

Our executive Directors and senior management are responsible for the day-to-day management of our business. The following table sets out certain information concerning our senior management as at this annual report:

Name	Age	Positions within the Company
SUN Hongchun	50	Vice President of Production and Technology
SONG Shuli	38	Chief Financial Officer
GONG Jianpei	52	Chief Designer
SUN Qiaoyun	44	Finance Controller

**Ms. SUN Hongchun** (孫紅春), aged 50, is our Vice President of Production and Technology. Ms. SUN served as a general manager of Yinshilai Textile since March 2005, primarily responsible for the implementation of enterprise routine management and business plan. Ms. SUN was appointed as a director of Yinshilai Textile in September 2005. Ms. SUN has accumulated 22 years of experience in the textile industry which can be traced back to 1990, including serving as a factory supervisor, head of production technology department of Zibo Wanjie Group Co., Ltd. (淄博萬杰集團有限公司), deputy factory supervisor, deputy general manager of Zibo Wanjie Fiber Co., Ltd. (淄博萬杰纖維有限公司) and general manager of Wanjie Knitting Company (萬杰織造公司). Ms. SUN was recognized as the “Model Worker of the Textile Industry of the PRC” (全國紡織工業勞動模範) by the Ministry of Human Resources and Social Security (人力資源和社會保障部) and China Textile and Apparel Council (中國紡織工業協會) in 2010, the “Outstanding Manager of the Shandong Province for the year 2010” (二零一零年度山東省優秀經營管理者) by the Shandong Economic and Information Technology Committee (山東省經濟和信息化委員會), the second prize of the “Modern Innovation and Excellent Application of Enterprises Management of the Shandong Province Award” (山東省企業管理現代化創新及優秀應用成果二等獎) by the Modern and Innovative Contribution of Enterprises Management of the Shandong Province Award Committee (山東省企業管理現代化創新成果評審委員會) in December 2010, and “the Honour of Excellent Innovative Leader of the Boshan District” (博山區優秀創新帶頭人榮譽) by the Peoples’s Government of Boshan District (博山區人民政府). Ms. SUN has also participated in a chemical fiber technology development project which was recognized as a “Spark Program Achievement at the National Level” (國家級星火計劃科技成果) by the Science and Technology Commission of Shandong Province (山東省科學技術委員會) in December 1993.

Ms. SUN graduated from the College of Textile Engineering of Shandong (山東紡織工學院) with a bachelor degree majoring in textile engineering in June 1990.

**Mr. SONG Shuli** (宋樹利), aged 38, has been our Chief Financial Officer since July 2011 and is responsible for our Group’s financial and accounting functions, and overseeing the financial reporting and accounting functions. Mr. SONG obtained a bachelor degree in laws from the Shandong Normal University (山東師範大學) in December 2009. Mr. SONG was qualified as a certified tax adviser, a qualified property valuer and a qualified accountant in China in September

2005, September 2005 and October 2005, respectively. Mr. SONG worked in a number of professional accounting firms in China prior to joining our Group.

**Mr. GONG Jianpei (龔建培)**, aged 52, joined our Group in August 2011 when he was appointed as our Chief Designer on a part-time basis. His duties include conducting market research and analysis as to textile products, assisting us in new products design and development, providing training to the staff in our research and development and product design department, and assisting us in the planning of design competition and headhunting. Mr. GONG is experienced in textile fabric design. He was awarded the first-class theses award by the National Textile Design Competition And Theory Seminar (2001全國紡織品設計大賽暨理論研討會) in 2001, a silver prize in the “Fourth National Interior Design Competition” (全國第四屆室內設計大賽) by China Interior Decoration Association (中國室內裝飾協會) in 2002, a silver prize for his thesis in the “Chinese International Household Textile Design Competition” (中國國際家用紡織品設計大賽) by China Home Textile Association (中國家用紡織品行業協會), The Sub-Council of Textile Industry, CCPIT (中國國際貿易促進委員會紡織行業分會), Messe Frankfurt (HK) Ltd (法蘭克福展覽(香港)有限公司), and The People’s Government of Hianing, Zhejiang Province (浙江省海寧市人民政府) in 2003, an award of excellence for his thesis in the Chinese Fashion Colour Association (中國流行色協會) in December 2003, the “First Prize Teaching Achievement Award” (教學成就一等獎) by the Nanjing Art Institute (南京藝術學院) in 2004, and the “Second Prize Achievement Award for Undergraduates Teaching in Jiangsu Province for 2004” (2004年江蘇省高等教育教學成果獎二等獎) by the Education Department of Jiangsu Province (江蘇省教育廳) in 2005, respectively.

Mr. GONG is currently holding a number of posts in professional institutes in relation to design and textile. He is also a qualified designer of the Designer Chapter of the Chinese Household Textile Association (中國家紡協會設計師分會), a specialist of the Textile & Garment Chamber of Commerce, All-China Association of Industry & Commerce (中華全國工商業聯合會紡織服裝業商會), a councilor of the International Natural Dyeing Association (國際自然染色協會), and a councilor of the Chinese Fashion Colour Association (中國流行色協會).

**Ms. SUN Qiaoyun (孫巧雲)**, aged 44, is our Finance Controller. Ms. SUN joined our Group as the chief of the accounting and finance department of Yinshilai Textile in November 2004 and was appointed as a director of Yinshilai Textile in March 2006. Ms. SUN has accumulated 21 years of experience in finance and management which can be traced back to 1991 when she served as the manager of the finance department of Zibo Wanjie Fiber Co., Ltd. (淄博萬杰纖維有限公司).

Ms. SUN undertook a part-time course at the Party School of Shandong Provincial Party Committee of China Communist Party (中共山東省委黨校) and obtained a bachelor degree in economic management in December 2004.

As at the date of this annual report, save as disclosed above, each of our Directors and our senior management members has confirmed that he or she has not held any directorship in other listed public companies or major appointments in the past three years.

## COMPANY SECRETARY

**Ms. CHAN Yin Wah (陳燕華)**, aged 38, is an associate director of SW Corporate Service Group Limited. She has over 16 years of professional experience in handling corporate secretarial, compliance and share registry matters for listed companies in Hong Kong. She has worked for various international professional firms and listed companies in Hong Kong. Ms. CHAN holds a Bachelor's degree in economics and a master's degree in professional accounting. She is a fellow member of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in the United Kingdom. She is also a fellow member of the Association of Chartered Certified Accountants in the United Kingdom.

## CORPORATE GOVERNANCE REPORT

### 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.

For the year ended 31 December 2013, 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 annual report, 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 is the chairman and chief executive officer of the Company. The Board considers that this structure will not impair the balance of power and authority between the board and the management of the Company. The balance of power and authority is ensured by the effective operations of the Board, which comprises experienced and high caliber individuals.

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 (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 (The code provision was effective from 1 September 2013). 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, and 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 transaction 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 complied with the required standards of dealing as set out in the Model Code for the year ended 31 December 2013.

## The Board of Directors

### Composition

The Board currently comprises six Directors, of which Mr. LIU Dong, Mr. LIU Zongjun, and Mr. TIAN Chengjie are executive Directors; and Mr. ZHU Ping, Mr. LIN Jiyang, and Mr. CHANG Tao are independent non-executive Directors. The composition of the Board is as follows:

***Executive Directors:***

LIU Dong (*Chairman*)

LIU Zongjun

TIAN Chengjie

***Independent non-executive Directors:***

ZHU Ping

LAM Kai Yeung

CHANG Tao (Appointed on 21 March 2014)

During the year ended 31 December 2013, there had been certain changes in the composition of the Board: Mr. YAN Tangfeng resigned as a non-executive Director on 15 May 2013, while Ms. ZHU Beina resigned as an independent non-executive Director on 31 December 2013.

The biographical details of each Director are set out in the section “Directors and Senior Management Profile” on pages 16 to 22.

**Board meetings**

The Board is scheduled to meet regularly at least four times a year at approximately quarterly intervals, to discuss the overall strategy as well as the operational and financial performance of the Company. Other Board meetings will be held when necessary. Such regular Board meetings do not involve the way of written resolutions approved by the Board. During the year ended 31 December 2013, four Board meetings were held and the attendance records of individual Directors are set out below:

**Directors' attendance / meetings held  
for the year ended 31 December 2013**

	<b>Board of Directors</b>	<b>Audit Committee</b>	<b>Nomination Committee</b>	<b>Remuneration Committee</b>
<i>Executive Directors</i>				
LIU Dong ( <i>Chairman</i> )	4/4	2/2	2/2	2/2
LIU Zongjun	4/4	2/2	N/A	N/A
TIAN Chengjie	4/4	2/2	N/A	N/A
<i>Non-executive Directors</i>				
YAN Tangfeng (Resigned on 15 May 2013)	1/4	N/A	N/A	N/A
<i>Independent non-executive Directors</i>				
ZHU Beina (Resigned on 31 December 2013)	4/4	2/2	2/2	2/2
ZHU Ping	4/4	2/2	2/2	2/2
LAM Kai Yeung	4/4	2/2	N/A	N/A

There are three independent non-executive Directors and they represent over one third of the Board, and one of them, Mr. LAM Kai Yeung has the appropriate professional qualifications.

Appropriate notices are given to all Directors in advance for attending regular and other Board meetings. Meeting agendas and other relevant information are provided to the Directors in advance of Board meetings. All Directors are consulted to include additional matters in the agenda for Board meetings.

Directors have access to the advice and services of the company secretary with a view to ensuring that Board procedures, and all applicable rules and regulations, are followed.

Both draft and final versions of the minutes are sent to all Directors for their comment and records. Minutes of Board meetings are kept by the company secretary and such minutes are open for inspection at any reasonable time on reasonable prior notice by any Director.

## General meeting

The company will hold the annual general meeting (the “AGM”) on 20 June 2014.

## Responsibilities of the Board and management

The Board is primarily overseeing and managing the Company’s affairs, including the responsibilities for the adoption of long-term strategies and appointing and supervising senior management to ensure that the operation of the Group is conducted in accordance with the objective of the Group. The Board is also responsible for determining the Company’s corporate governance policies which include: (i) to develop and review the Company’s policies and practices on corporate governance; (ii) to review and monitor the training and continuous professional development of Directors and senior management; (iii) to review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and (iv) to review the Company’s disclosure in the Corporate Governance Report.

While at all times the Board retains full responsibility for guiding and monitoring the Company in discharging its duties, certain responsibilities are delegated to various Board committees which have been established by the Board to deal with different aspects of the Company’s affairs. Unless otherwise specified in their respective written terms of reference as approved by the Board, these Board committees are governed by the Company’s articles of association as well as the Board’s policies and practices (in so far as the same are not in conflict with the provisions contained in the articles of association). With the new composition of members of the nomination committee, remuneration committee and the audit committee, the independent non-executive Directors will be able to effectively devote their time to perform the duties required by the respective Board committees.

The Board has also delegated the responsibility of implementing its strategies and the day-to-day operation to the management of the Company under the leadership of the executive Directors. Clear guidance has been made as to the matters that should be reserved to the Board for its decision which include matters on, inter alia, capital, finance and financial reporting, internal controls, communication with shareholders, Board membership, delegation of authority and corporate governance.

The Board acknowledges its responsibility for the preparation of the financial statements which give a true and fair view of the state of affairs of the Group. The financial statements set out on pages 44 to 103 were prepared on the basis set out in note 1 to the Financial Statements. Financial results of the Group are announced in a timely manner in accordance with statutory and/or regulatory requirements. The declaration of reporting responsibility issued by the external auditors of the Company on the Company’s financial statements is set out in the Independent Auditors’ Report on page 42.

There is no non-compliance with rules 3.10(1), 3.10(2) and 3.10A of the Listing Rules. Except as disclosed in the section “Directors and Senior Management Profile” above, there is no financial, business, family or other material relationship among members of the Board.

## Confirmation of independence

Each of the independent non-executive Directors has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company is of the view that all independent non-executive Directors meet the independence guidelines set out in Rule 3.13 of the

Listing Rules and are independent in accordance with the terms of the guidelines.

### **Continuous professional development**

During the year ended 31 December 2013, all Directors, namely, Mr. LIU Dong, Mr. LIU Zongjun, Mr. TIAN Chengjie, Mr. ZHU Ping and Mr. LAM Kai Yeung, have been given relevant guidance materials and attended a training regarding the duties and responsibilities of being a Director, the relevant laws and regulations applicable to the Directors, duty of disclosure of interest and business of the Group. Continuing briefings and professional development to all Directors will be arranged whenever necessary.

Mr. Chang Tao is an independent non-executive Director appointed on 21 March 2014 and has been given relevant guidance materials and attended a training regarding the duties and responsibilities of being a Director, the relevant laws and regulations applicable to the Directors, duty of disclosure of interest and business of the Group.

All Directors have provided record of training attendance and the Company will continue to arrange and/or fund the training in accordance with paragraph A.6.5 of the Code Provisions.

### **Independent non-executive Director**

All independent non-executive Directors have entered into a letter of appointment with the Company for a specific term of three years, subject to retirement by rotation and re-election.

In accordance with the articles of association of the Company, at each AGM, one third of the Directors for the time being shall retire from office by rotation. However, if the number of Directors is not a multiple of three, then the number nearest to but not less than one third shall be the name of retiring Directors. The Directors who shall retire in each year will be those who have been longest in the office since their last re-election or appointment but as between persons who become or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot. Such retiring Directors may, being eligible, offer themselves for re-election at the AGM. All Directors appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of shareholders after their appointment and be subject to re-election at such meeting and all Directors appointed by the Board as an addition to the existing Board shall hold office only until the next following AGM and shall then be eligible for re-election.

### **Nomination Committee**

The Company established the Nomination Committee on 26 June 2012 with written terms of reference in compliance with paragraph A.5.2 of the Code Provisions. Its terms of reference are available on the websites of the Company and the Stock Exchange.

The primary duties of the Nomination Committee are to review the structure, size and composition of the Board on regular basis; identify individuals suitably qualified to become Board members; assess the independence of independent non-executive Directors; and make recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors. The Nomination Committee comprises three members and two of them are independent non-executive Directors, namely Mr. CHANG Tao (being the Chairman), Mr. ZHU Ping and one Executive Director, namely Mr. LIU Dong.

During the year ended 31 December 2013, two Nomination Committee meetings were held during this period. The Nomination Committee meetings were held on 27 March 2013 and 16 August 2013, inter alia, reviewing the structure, size and composition of the Board and the independence of independent non-executive Directors as well as discussing the matters regarding retirement and re-election of Directors.

When identifying suitable candidates for directorship, the Nomination Committee will carry out the selection process by making reference to the skills, experience, education background, professional knowledge, personal integrity and time commitments of the proposed candidates, and also the Company's needs and other relevant statutory requirements and regulations required for the positions. All candidates must be able to meet the standards as set forth in Rules 3.08 and 3.09 of the Listing Rules. A candidate who is to be appointed as an independent non-executive Director should also meet the independence criteria set out in Rule 3.13 of the Listing Rules. Qualified candidates will then be recommended to the Board for approval.

### **Remuneration Committee**

The Company established the Remuneration Committee pursuant to a resolution of the Directors passed on 26 June 2012 with written terms of reference in compliance with the Listing Rules. The written terms of reference of the remuneration committee was adopted in compliance with paragraph B1.2 of the Code Provisions. Its terms of reference are available from the websites of the Company and the Stock Exchange.

The primary duties of the Remuneration Committee are to make recommendation to the Board on the overall remuneration policy and structure relating to all Directors and senior management of the Group and ensure none of the Directors determine their own remuneration. The emoluments of executive Directors are determined based on the skills, knowledge, individual performance as well as contributions, the scope of responsibility and accountability of such Directors, taking into consideration of the Company's performance and prevailing market conditions. The remuneration policy of independent non-executive Directors is to ensure that the independent non-executive Directors are adequately compensated for their efforts and time dedicated to the Company's affairs including their participation in respective Board committees. The emoluments of independent non-executive Directors are determined with reference to their skills, experience, knowledge, duties and market trends. The Remuneration Committee consists of three members and two of them are independent non-executive Directors, namely Mr. ZHU Ping (being the Chairman), Mr. CHANG Tao and one executive Director, namely Mr. LIU Dong.

Details of remuneration of Directors are set out in note 6 to the Financial Statements.

During the year ended 31 December 2013, two meetings were held by the Remuneration Committee. The Remuneration Committee meetings were held on 27 March 2013 and 16 August 2013 for, inter alia, reviewing the overall remuneration policy and structure relating to all Directors and senior management of the Group.

The Remuneration Committee has adopted the model that it will review the proposals made by the management on the remuneration of executive Directors and senior management and make recommendation to the Board. The Board will have final authority to approve the recommendations made by the Remuneration Committee.

## Audit Committee

The Company established the Audit Committee pursuant to a resolution of the Director passed on 26 June 2012 with written terms of reference in compliance with Rule 3.21 and Rule 3.22 of the Listing Rules. The written terms of reference of the Audit Committee was adopted in compliance with paragraph C.3.3 and C.3.7 of the Code Provisions. Its terms of reference are available on the websites of the Company and the Stock Exchange. The Audit Committee reports to the Board and has held regular meetings since its establishment to review and make recommendations to improve the Group's financial reporting process and internal controls.

The primary duties of the Audit Committee, among other things, are to make recommendation to the Board on the appointment, re-appointment and removal of external auditor, review the financial statements and material advice in respect of financial reporting and overseas internal control procedures of the Company. As at the date of this annual report, the Audit Committee consists of three independent non-executive Directors, namely Mr. LAM Kai Yeung (being the Chairman), Mr. ZHU Ping and Mr. CHANG Tao.

During the year, the Audit Committee reviewed with the management of the Company the accounting principles and practices adopted by the Group, and discussed internal controls and financial reporting matters. The Audit Committee also met with the external auditors and reviewed the draft annual and interim reports of the Company. The Audit Committee was satisfied that the audited consolidated financial statements of the Company were prepared in accordance with applicable accounting standards and present fairly the financial position and results of the Group for the Year.

During the year ended 31 December 2013, two meetings were held by the Audit Committee and all the members of Audit Committee had attended the meeting.

During the year ended 31 December 2013, the Board has not taken a different view from the Audit Committee on the selection, appointment, resignation or dismissal of external auditors.

## Corporate governance functions

The Board developed and reviewed the Company's policies and practices on corporate governance and made recommendations.

## Auditor's remuneration

During the Year, the Company engaged KPMG as the external auditors. Apart from providing audit services, KPMG also provided reporting accountant services in connection with the Company's Listing. The fees in respect of audit services provided by KPMG for the year ended 31 December 2013 amounted to approximately RMB1.0 million.

The reporting responsibilities of KPMG are set out in the Independent Auditors' Report on pages 42 and 43.

## Company secretary

Ms. CHAN Yin Wah of SW Corporate Services Group Limited, an external service provider, has been engaged by the Company as the company secretary since September 2011, her biographical detail is set out in the section headed “Directors and Senior Management Profiles” in this annual report. Ms. Chan has complied with the requirement under Rule 3.29 of the Listing Rules during the Year. The primary contact person of the Company is Mr. TIAN Chengjie, an executive Director and secretary to the Board of the Company in relation to any corporate secretarial matters.

## Internal controls

The Board is responsible for maintaining a sound and effective internal control system in order to safeguard the interests of the shareholders and the assets of the Company against unauthorized use or disposition, ensuring maintenance of proper books and records for the provision of reliable financial information, and ensuring compliance with the relevant rules and regulations.

The Board has conducted a review of the effectiveness of the Group’s internal control system for the year ended 31 December 2013 and will continue to assess the effectiveness of internal controls by considering reviews performed by the Audit Committee and executive management.

## Shareholders’ rights

The shareholders of the Company may make requisition for the convening of an extraordinary general meeting (“EGM”) of the Company in accordance with the procedures set out in the Articles of Association as follows:

- (1) Any two or more shareholders, or any one or more shareholders which is a recognised clearing house (or its nominee) holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meetings, shall have the right, by written notice, to require an EGM to be called by the Directors of the Company for the transaction of any business specified in such requisition.
- (2) Such requisition shall be made in writing to the Board or the company secretary of the Company at the following:

### *Principal place of business of the Company in Hong Kong*

Address: 18/F, Tesbury Centre, 28 Queen’s Road East, Wanchai,  
Hong Kong

Attention: Mr. TIAN Chengjie

### *Head office of the Company in the PRC*

Address: Yinlong Village, Economic Development Zone, Boshan District, Zibo City,  
Shandong, province, the PRC

Attention: Mr. TIAN Chengjie

- (3) The requisition will be verified with the Company's branch share registrars in Hong Kong on the shareholding and upon their confirmation that such requisition is proper and in order, the Board will convene an EGM within 21 days from the date of deposit of the requisition, such EGM to be held within a further 21 days.
- (4) If within 21 days of such deposit, the Board fails to proceed to convene such EGM, the requisitioner(s) himself (themselves) may do so in the same manner as that in which meetings may be convened by the Board, such EGM to be held within three months from the date of deposit of the requisition, and all reasonable expenses incurred by the requisitioner(s) as a result of the failure of the Board shall be reimbursed to the requisitioner(s) by the Company.

For matters in relation to the Board, the shareholders can contact the Company at the following:

Address: Yinlong Village, Economic Development Zone, Boshan District, Zibo City, Shandong, province, the PRC  
Email: tian@ysltex.com  
Tel: (86) 533 7918168  
Fax: (86) 533 4656266  
Attention: Mr. TIAN Chengjie

There is no provision in the Companies Law of the Cayman Islands or in the Articles of Association giving shareholders a right to propose resolutions at a general meeting, shareholders who wishes to propose a resolution must make requisition for the convening of a general meeting in accordance with the procedures set out above.

### **Investor relations and communication**

The Board recognizes the importance of good communications with all shareholders. The Company believes that maintaining a high level of transparency is a key to enhance investor relations. The Company is committed to a policy of open and timely disclosure of corporate information to its shareholders and investment public.

The Company updates its shareholders on its latest business developments and financial performance through its corporate publications including annual reports and public announcements. Extensive information about the Company's activities for the year ended 31 December 2013 has been provided in this annual report. While the AGM provides a valuable forum for direct communication between the Board and its shareholders, the Company also maintains its website (<http://www.ysltex.com>) to provide an alternative communication channel for the public and its shareholders. All corporate communication and Company's latest updates are available on the Company's website for public's information.

During the year ended 31 December 2013, there has been no significant change in the Company's constitutional documents.

## REPORT OF THE DIRECTORS

The Directors have pleasure in presenting their audited consolidated financial statements of the Group for the year ended 31 December 2013 (the “Financial Statements”).

### Principal activities

The principal activities of the Company is investment holding and those of the principal subsidiaries of the Company are set out in note 2 to the Financial Statements.

### 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, 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 will be approximately RMB200 million. The remaining funds to be required will be 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 and construction began in November 2012.

### Results and appropriations

The results of the Group for the year ended 31 December 2013 and the state of affairs of the Group as at 31 December 2013 are set out in the Financial Statements on pages 44 to 103.

### 5-year financial summary

A summary of the results and assets and liabilities of the Group for the last 5 financial years ended 31 December 2009 to 2013 is set out on page 6. This summary does not form part of the Financial Statements.

### Share capital

Details of movements in share capital of the Company during the Year are set out in note 24 to the Financial Statements.

## Share option scheme

The Company's existing Share Option Scheme was approved for adoption pursuant to a written resolution of all of our Shareholders passed on 26 June 2012 for the purpose of providing our Company with a flexible means of giving incentive to, rewarding, remunerating, compensating and/or providing benefits to eligible participants and for such other purposes as the Board approve from time to time.

Subject to the terms of the Share Option Scheme, the board may, at their absolute discretion, grant or invite any person belonging to any of the following classes to take up options to subscribe for shares: (a) any employee, supplier, service provider, customer, partner or joint-venture partner of the Group (including any director, whether executive and whether independent or not, of the Group) who is in full-time or part-time employment with the Company or any subsidiaries; (b) any person who have contributed or may contribute to the Group.

The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company must not exceed 30% of the total number of shares in issue from time to time.

The total number of share which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of the Company must not exceed 10% of the total number of shares in issue on 12 July 2012 unless the Company seeks the approval of the shareholders in general meeting for refreshing the 10% limit under the Share Option Scheme provided that options lapsed in accordance with the terms of the Share Option Scheme or any other share option schemes of the Company will not be counted for the purpose of calculating 10% limit.

Details of the principal terms of the Share Option Scheme are set out in paragraph headed "Share Option Scheme" in section headed "Statutory and General Information" in Appendix VI to the Prospectus. The principal terms of the Share Option Scheme are summarised as follows:

The Share Option Scheme was adopted for a period of 10 years commencing from 26 June 2012 and remains in force until 25 June 2022. The Company may, by resolution in general meeting or, such date as the Board determined, terminate the Share Option Scheme at any time without prejudice to the exercise of options granted prior to such termination.

The exercise price per share of the Company for each option granted shall be determined by the Board in its absolute discretion but in any event shall be at least the higher of:

- (1) the closing price of the shares as stated in the daily quotations sheets issued by the Stock Exchange on the date of offer for the grant of option ("Date of Grant") which must be a trading day;
- (2) the average closing price of the shares as stated in the daily quotations sheets issued by the Stock Exchange for the five trading days immediately preceding the Date of Grant; and
- (3) the nominal value of the shares on the Date of Grant.

Upon acceptance of the options, the grantee shall pay HKD1.00 to the Company as consideration for the grant. The acceptance of an offer of the grant of the option must be made within the date as specified in the offer letter issued by the Company. The exercise period of any option granted under the Share Option Scheme shall not be longer than 10 years commencing on the date of grant and expiring on the last day of such 10-year period subject to the provisions for early termination as contained in the Share Option Scheme.

The total number of new shares of the Company that may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share options schemes of the Company shall not exceed 80,000,000 shares, which represents 10% of the shares in issue of the Company as at the date of this annual report.

The maximum number of shares issued and to be issued upon exercise of the options granted and to be granted to each grantee under the Share Option Scheme (including exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the total number of Shares in issue. Any further grant of options in excess of this 1% limit shall be subject to issuance of a circular by the Company and approved by its shareholders in accordance with the Listing Rules.

During the year ended 31 December 2013, no options were granted under the Share Option Scheme.

Apart from the aforesaid share option schemes, at no time during the year ended 31 December 2013 was any of the Company and its holding companies, subsidiaries and fellow subsidiaries a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the Directors, or their spouses or children under the age 18, had any right to subscribe for the shares in, or debentures of, the Company, or had exercise any such right.

### **Distributable reserves**

The Company was incorporated in the Cayman Islands on 24 February 2010. As at 31 December 2013, the Company had distributable reserves of approximately RMB85.9 million available for distribution to the shareholders.

### **Major customers and suppliers**

Sales to the Group's five largest customers accounted for approximately 31% of the total sales for the year ended 31 December 2013 and sales to the largest customer included therein accounted for approximately 17% thereof. Purchases from the Group's five largest suppliers accounted for approximately 27% of the total purchases for the year ended 31 December 2013 and purchases from the largest supplier included therein accounted for approximately 8% thereof.

To the best knowledge and belief of the Directors, neither the Directors or their associates, nor any shareholders who owned more than 5% of the Company's issued share capital, had any beneficial interest in any of the Group's five largest customers or suppliers during the year.

## **Subsidiaries, associated companies and jointly controlled companies**

The details of the major subsidiaries, associated companies and jointly controlled companies of the Group are set out in notes 14 and 15 to the Financial Statements.

### **Fixed assets**

During the year ended 31 December 2013, the Group's total capital expenditure amounted to approximately RMB139.3 million (2012: approximately RMB56.8 million) which was used for acquisition of machineries and equipments. The details of the properties, plant and equipment of the Group and the changes in the investment properties and leasehold land of the Group during the year are set out in note 12 to the Financial Statements.

### **Borrowings**

Particulars of borrowings of the Group as at the balance sheet date are set out in note 21 to the Financial Statements. Save as disclosed in note 19 to the Financial Statement, the Group pledged its properties, plant and equipment with net book value of approximately RMB50.6 million (2012: approximately RMB68.2 million) to bank as securities for the bank borrowings as at 31 December 2013.

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

The shares of the Company have been listed on the Main Board of the Stock Exchange on the Listing Date. During the year ended 31 December 2013, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

### **Directors and Directors' service contracts**

Each of the executive Directors has entered into a letter of appointment with the Company for a term of three years from the Listing Date and shall continue thereafter until terminated by, not less than three months' notice in writing served by either party on the other.

The independent non-executive Directors of Mr. ZHU Ping and Mr. LAM Kai Yeung have entered into a letter of appointment with the Company on 26 June 2012 for a term of three years from the date of listing (12 July 2012) ("the Listing Date"), and the independent non-executive Director of Mr. CHANG Tao has entered into a letter of appointment with the company on 21 March 2014, subject to retirement by rotation and re-election at an AGM and until terminated by not less than three months' notice in writing served by either party on the other.

No Director has a service contract which is not determinable by the Company or any of its subsidiaries within 1 year without payment of compensation, other than statutory compensation.

The Company has received annual confirmation of independence from each of the independent non-executive Directors pursuant to Rule 3.13 of the Listing Rules and all of them are considered to be independent.

In accordance with the Company's Articles of Association, one third of the existing Directors shall retire from office, at the forthcoming AGM.

## Directors' interests in contracts

Save as disclosed, there was no contract of significance to which the Company or its holding company or any of its subsidiaries was a party and in which a Director of the Company had a material interest subsisted at the end of the year 2013 or at any time during the year ended 31 December 2013.

## Biographies of Directors and senior management

The biographical details of the Directors and senior management of the Group are disclosed in the section headed "Directors and Senior Management Profile" on pages 16 to 22 of this annual report.

## Non-competition undertaking by controlling shareholders

Each of the controlling shareholders of the Company has made an annual declaration in respect of their compliance with the terms of non-competition undertaking.

The independent non-executive Directors had reviewed and confirmed that the controlling shareholders of the Company have complied with the non-competition undertaking and the non-competition undertaking has been enforced by the Company in accordance with its terms, and that there was no New Opportunity (as defined in the Prospectus headed "Relationship with Controlling Shareholders – Non-compete undertakings") referred by the controlling shareholders to the Company as provided under the non-competition undertaking.

## 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 31 December 2013, the Directors and chief executives 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 BVI and the entire issued capital of which is beneficially owned by Mr. LIU Dong, one of the controlling shareholders of the Company and executive Directors.

Save as disclosed above, as at 31 December 2013, none of the Directors and chief executives 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 31 December 2013, 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:

<b>Name of Shareholders</b>	<b>Name of Group member/associated corporation</b>	<b>Capacity/nature of interest</b>	<b>Number and class of securities (Note 1)</b>	<b>Approximate percentage of shareholding</b>
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%
Mr. YAN Tangfeng (Note 4)	The company	Interest of a Controlled corporation	46,230,066 Shares (L)	5.78%
Sunlion Holdings Limited (Note 5)	The Company	Beneficial owner	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 Directors’ long position in the shares of the 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 of the Company and executive Directors. Therefore, Mr. LIU Dong is also deemed to have the interest owned by Excel Orient Limited.
3. Ms. WANG Lingli is the spouse of Mr. LIU Dong. Therefore, Ms. WANG Lingli is deemed, or taken to be interested in the Shares which Mr. LIU Dong is interested in for the purpose of the SFO.
4. Sunlion Holdings Limited is a company incorporated in the BVI, the entire issued share capital of which is beneficially owned by Mr. YAN Tangfeng. Therefore, Mr. YAN Tangfeng is also deemed to have the interest owned by Sunlion Holdings Limited. Mr. YAN Tangfeng resigned as a non-executive Director on 15 May 2013.
5. Sunlion Holdings Limited is a company incorporated in the BVI, the entire issued share capital of which is beneficially owned by Mr. YAN Tangfeng (an ex-non-executive Director). Therefore, Mr. YAN Tangfeng is also deemed to have the interest owned by Sunlion Holdings Limited.
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. LIU Dong is interested in for the purpose of the SFO.

Save as disclosed above, as at 31 December 2013, 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.

**Connected Transactions**

During the year ended 31 December 2013, the Company did not enter into any connected transactions or continuing connected transactions which require the compliance with the reporting, announcement and independent shareholders’ approval requirements under Chapter 14A ‘Connected Transactions’ of the Hong Kong Listing Rules.

**Competition and conflict of interests**

During the year ended 31 December 2013, save as disclosed in the Prospectus of the Company dated 29 June 2012, none of the Directors or substantial shareholders of the Company or any of their respective associates has engaged in any business that competes or may compete with the business of the Group or has any other conflict of interests with the Group.

### **Contract of significance of the Company**

No contract of significance between the Company, or any of its subsidiaries, and a controlling shareholder or any of its subsidiaries, whether directly or indirectly, subsisted at the end of the year or at any time during the year ended 31 December 2013.

### **Management contracts**

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2013.

### **Tax relief and exemption**

The Directors are not aware of any tax relief and exemption available to the Shareholders by reason of their holding of the Company's securities.

### **Pre-emptive rights**

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

### **Sufficiency of public float**

Based on information that is publicly available to the Company and within the best knowledge and belief of the Directors, the Company has maintained the prescribed public float under the Listing Rules up to the date of this annual report.

### **Corporate governance report**

Details of the Group's corporate governance practices can be found in the Corporate Governance Report contained on pages 23 to 32 in this annual report.

### **Compliance adviser's interests**

Pursuant to the compliance adviser agreement dated 10 July 2012 entered into between the Company and First Shanghai Securities Limited ("First Shanghai"), First Shanghai has been appointed as the compliance adviser as required under the Listing Rules for the period from the Listing Date to the date on which the Company complies with Rule 13.46 of the Listing Rules in respect of the Company's financial results for the year ended December 2013. First Shanghai has received a fee for acting as the Company's compliance adviser during the period.

As notified by First Shanghai, save as disclosed above, neither First Shanghai nor its respective directors, employees or associates (as defined in the Listing Rules) had any interest in the shares of the Company, or had any options or rights to subscribe for or to nominate persons to subscribe for the shares of the Company as at 31 December 2013.

## Final dividend

The Board recommends the payment of a final dividend of RMB0.0095 per share (2012: RMB0.00625 per share), subject to the approval of shareholders of the Company at the forthcoming AGM.

The Company proposes to pay the dividend on 18 July 2014 (Friday) to the registered shareholders appear in the Register of Members of the Company on 30 June 2014 (Monday). Dividends are declared in RMB and will be paid in Hong Kong dollars based on the official exchange rate of RMB against Hong Kong Dollars as quoted by the People's Bank of China on 30 June 2014 before payment.

## Closure of register of members

The register of members of the Company will be closed from 17 June 2014 (Tuesday) to 20 June 2014 (Friday), both days inclusive, during which period no transfer of shares will be registered. In order to qualify for attending and voting in the AGM, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on 16 June 2014 (Monday).

On the assumption that the resolution for declaring the final dividend is duly passed at the AGM, the register of members will be closed from 27 June 2014 (Friday) to 30 June 2014 (Monday), both days inclusive, during which period no transfer of shares will be registered. In order to qualify for entitlement to the proposed final dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on 26 June 2014 (Thursday).

## Annual general meeting

The AGM will be held on 20 June 2014 (Friday). Shareholders should refer to details regarding the AGM in the circular of the Company dated 25 April 2014 and the notice of the AGM and form of proxy accompanying thereto.

By order of the Board  
**Silverman Holdings Limited**

**LIU Dong**  
*Chairman*

Shandong Province, the PRC  
21 March 2014

## **INDEPENDENT AUDITOR'S REPORT**

### **to the shareholders of Silverman Holdings Limited**

*(Incorporated in Cayman Islands with limited liability)*

We have audited the consolidated financial statements of Silverman Holdings Limited (“the Company”) and its subsidiaries (hereafter collectively referred to as the “Group”) set out on pages 44 to 103, which comprise the consolidated and company statements of financial position as at 31 December 2013, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

#### **Directors' responsibility for the consolidated financial statements**

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

#### **Auditor's responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2013 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirement of the Hong Kong Companies Ordinance.

## **KPMG**

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

21 March 2014

## Consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2013

(Expressed in Renminbi Yuan)

	<i>Note</i>	<b>2013</b> <b>RMB'000</b>	<b>2012</b> <b>RMB'000</b>
<b>Turnover</b>	2	<b>774,577</b>	871,395
Cost of sales		<b>(681,352)</b>	(701,113)
<b>Gross profit</b>		<b>93,225</b>	170,282
Other net gains	3	<b>5,762</b>	2,228
Distribution costs		<b>(13,395)</b>	(13,038)
Administrative expenses		<b>(53,657)</b>	(61,214)
<b>Profit from operations</b>		<b>31,935</b>	98,258
Finance income	4(a)	<b>20,075</b>	15,277
Finance costs	4(a)	<b>(19,888)</b>	(22,391)
<b>Profit before taxation</b>	4	<b>32,122</b>	91,144
Income tax	5	<b>(10,551)</b>	(17,110)
<b>Profit and total comprehensive income for the year</b>		<b>21,571</b>	74,034
<b>Profit and total comprehensive income attributable to equity shareholders of the Company</b>		<b>21,571</b>	74,034
<b>Earnings per share</b>			
Basic and diluted	9	<b>RMB0.03</b>	RMB0.10

The notes on pages 51 to 103 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in note 10.

**Consolidated statement of financial position  
at 31 December 2013**

(Expressed in Renminbi Yuan)

	<i>Note</i>	<b>2013</b> <b>RMB'000</b>	<b>2012</b> <b>RMB'000</b>
<b>Non-current assets</b>			
Fixed assets	<i>12</i>		
- Property, plant and equipment		<b>537,702</b>	379,739
- Interests in leasehold land under operating leases		<b>48,375</b>	8,789
		<b>586,077</b>	388,528
Intangible assets		<b>12</b>	65
Goodwill	<i>13</i>	<b>6,394</b>	6,394
Investments in equity securities	<i>15</i>	<b>1,000</b>	1,000
Deferred expenses	<i>17</i>	<b>3,103</b>	-
		<b>596,586</b>	395,987
<b>Current assets</b>			
Inventories	<i>16</i>	<b>163,163</b>	162,766
Trade and other receivables	<i>17</i>	<b>156,100</b>	161,985
Pledged bank deposits	<i>18</i>	<b>9,826</b>	182,628
Cash and cash equivalents	<i>19</i>	<b>102,375</b>	136,554
		<b>431,464</b>	643,933
<b>Current liabilities</b>			
Trade and other payables	<i>20</i>	<b>133,165</b>	88,246
Bank loans	<i>21</i>	<b>224,000</b>	344,106
Obligations under finance leases	<i>22</i>	<b>22,565</b>	15,798
Current taxation	<i>23</i>	<b>4,987</b>	6,441
		<b>384,717</b>	454,591
<b>Net current assets</b>		<b>46,747</b>	189,342
<b>Total assets less current liabilities</b>		<b>643,333</b>	585,329

The notes on pages 51 to 103 form part of these financial statements.

**Consolidated statement of financial position (continued)****at 31 December 2013***(Expressed in Renminbi Yuan)*

	<i>Note</i>	<b>2013</b> <b>RMB'000</b>	<b>2012</b> <b>RMB'000</b>
<b>Non-current liabilities</b>			
Obligations under finance leases	22	<b>41,183</b>	-
Deferred tax liabilities	23	<b>750</b>	500
		<b>41,933</b>	500
<b>Net assets</b>			
		<b>601,400</b>	584,829
<b>Capital and reserves</b>			
Share capital	24	<b>50,577</b>	50,577
Reserves	24	<b>550,823</b>	534,252
<b>Total equity</b>			
		<b>601,400</b>	584,829

Approved and authorised for issue by the board of directors on 21 March 2014.

Liu Dong	)	Directors
	)	
Tian Chengjie	)	
	)	

The notes on pages 51 to 103 form part of these financial statements.

**Statement of financial position  
at 31 December 2013**  
(Expressed in Renminbi Yuan)

	<i>Note</i>	<b>2013</b> <b>RMB'000</b>	<b>2012</b> <b>RMB'000</b>
<b>Non-current assets</b>			
Investment in subsidiaries	14	-	-
<b>Current assets</b>			
Other receivables	17	<b>279,426</b>	251,367
Cash and cash equivalents	19	<b>5,385</b>	42,511
		<b>284,811</b>	293,878
<b>Current liabilities</b>			
Other payables	20	<b>1,633</b>	971
<b>Net current assets</b>		<b>283,178</b>	292,907
<b>Net assets</b>		<b>283,178</b>	292,907
<b>Capital and reserves</b>			
Share capital	24	<b>50,577</b>	50,577
Reserves	24	<b>232,601</b>	242,330
<b>Total equity</b>		<b>283,178</b>	292,907

Approved and authorised for issue by the board of directors on 21 March 2014.

Liu Dong                     )  
                                      )  
                                      )     Directors  
Tian Chengjie             )  
                                      )

The notes on pages 51 to 103 form part of these financial statements.

## Consolidated statement of changes in equity for the year ended 31 December 2013

(Expressed in Renminbi Yuan)

	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
<b>Balance at 1 January 2012</b>	68	-	(909)	43,821	(27,377)	242,500	258,103
Profit and total comprehensive income for the year	-	-	-	-	-	74,034	74,034
Waiver of the amount due to the holding company	-	-	-	-	146,736	-	146,736
Shares issuance	10,151	114,805	-	-	-	-	124,956
Capitalisation issue	40,358	(40,358)	-	-	-	-	-
Dividends declared in respect of the current year	-	-	-	-	-	(19,000)	(19,000)
Appropriations to statutory reserve	-	-	-	8,878	-	(8,878)	-
<b>Balance at 31 December 2012</b>	<b>50,577</b>	<b>74,447</b>	<b>(909)</b>	<b>52,699</b>	<b>119,359</b>	<b>288,656</b>	<b>584,829</b>
<b>Balance at 1 January 2013</b>	<b>50,577</b>	<b>74,447</b>	<b>(909)</b>	<b>52,699</b>	<b>119,359</b>	<b>288,656</b>	<b>584,829</b>
Profit and total comprehensive income for the year	-	-	-	-	-	21,571	21,571
Dividends declared in respect of the previous year	-	-	-	-	-	(5,000)	(5,000)
Appropriations to statutory reserve	-	-	-	2,609	-	(2,609)	-
<b>Balance at 31 December 2013</b>	<b>50,577</b>	<b>74,447</b>	<b>(909)</b>	<b>55,308</b>	<b>119,359</b>	<b>302,618</b>	<b>601,400</b>

The notes on pages 51 to 103 form part of these financial statements.

**Consolidated cash flow statement  
for the year ended 31 December 2013**  
(Expressed in Renminbi Yuan)

	<i>Note</i>	<b>2013</b> <b>RMB'000</b>	<b>2012</b> <b>RMB'000</b>
<b>Operating activities</b>			
Profit before taxation		<b>32,122</b>	91,144
Adjustments for			
Depreciation	4(c)	<b>64,895</b>	59,758
Amortisation	4(c)	<b>1,028</b>	263
(Reversal of impairment) / impairment losses on other receivables	4(c)	<b>(841)</b>	5,000
Interest income	4(a)	<b>(3,978)</b>	(6,157)
Finance costs	4(a)	<b>17,817</b>	22,020
Net (gain) / loss on sale of property, plant and equipment	3	<b>(56)</b>	11
		<b>110,987</b>	172,039
<b>Changes in working capital</b>			
Increase in inventories		<b>(397)</b>	(61,977)
Increase in trade and other receivables		<b>(11,846)</b>	(20,361)
Increase / (decrease) in trade and other payables		<b>13,575</b>	(5,662)
(Increase) / decrease in guarantee deposits for issuance of commercial bills and bank acceptance		<b>(8,170)</b>	12,427
		<b>104,149</b>	96,466
<b>Cash generated from operations</b>		<b>104,149</b>	96,466
Income tax paid	23	<b>(11,755)</b>	(22,454)
<b>Net cash generated from operating activities</b>		<b>92,394</b>	74,012

The notes on pages 51 to 103 form part of these financial statements.

**Consolidated cash flow statement (continued)**  
**for the year ended 31 December 2013**  
*(Expressed in Renminbi Yuan)*

	<i>Note</i>	<b>2013</b> <b>RMB'000</b>	<b>2012</b> <b>RMB'000</b>
<b>Investing activities</b>			
Capital expenditures		(139,267)	(56,808)
Advance to an entity		-	(5,000)
Repayment of advance to an entity		500	-
Proceeds from disposal of property, plant and equipment		85	10
Decrease / (increase) in guarantee deposits for bank loans		180,972	(6,675)
Interest received		3,978	6,157
<b>Net cash generated from / (used in) investing activities</b>		<b>46,268</b>	<b>(62,316)</b>
<b>Financing activities</b>			
Proceeds from share issuance		-	124,956
Proceeds from bank and other loans		345,570	307,105
Repayment of bank and other loans		(495,594)	(366,514)
Repayment to the holding company		-	(29,897)
Borrowing costs paid		(17,817)	(22,020)
Dividends paid to equity holders	<i>10</i>	(5,000)	(19,000)
<b>Net cash used in financing activities</b>		<b>(172,841)</b>	<b>(5,370)</b>
<b>Net (decrease) / increase in cash and cash equivalents</b>		<b>(34,179)</b>	<b>6,326</b>
Cash and cash equivalents at 1 January	<i>19</i>	136,554	130,228
<b>Cash and cash equivalents at 31 December</b>	<i>19</i>	<b>102,375</b>	<b>136,554</b>

The notes on pages 51 to 103 form part of these financial statements.

## Notes to the financial statements

*(Expressed in Renminbi Yuan unless otherwise indicated)*

### 1 Significant accounting policies

#### (a) Statement of compliance

The consolidated financial statements for the year ended 31 December 2013 comprise the Company and its subsidiaries (collectively referred to as the “Group”).

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards (“IFRSs”), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards (“IASs”) and Interpretations issued by the International Accounting Standards Board (“IASB”). These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 1(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

#### (b) Basis of preparation of the financial statements

The financial statements are presented in Renminbi (“RMB”) (the “presentation currency”), rounded to the nearest thousand. The measurement basis used in the preparation of the financial statements is the historical cost basis.

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 30.

## 1 Significant accounting policies (continued)

### (c) Changes in accounting policies

The IASB has issued a number of new IFRSs and amendments to IFRSs 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 IAS 1, *Presentation of financial statements – Presentation of items of other comprehensive income*
- IFRS 10, *Consolidated financial statements*
- IFRS 11, *Joint arrangements*
- IFRS 12, *Disclosure of interests in other entities*
- IFRS 13, *Fair value measurement*
- Revised IAS 19, *Employee benefits*
- *Annual Improvements to IFRSs 2009-2011 Cycle*
- Amendments to IFRS 7 – *Disclosures – Offsetting financial assets and financial liabilities*

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

#### **Amendments to IAS 1, Presentation of financial statements – Presentation of items of other comprehensive income**

The amendments to IAS 1 require entities to present the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met separately from those that would never be reclassified to profit or loss. The Group's presentation of other comprehensive income in these financial statements has been modified accordingly.

#### **IFRS 10, Consolidated financial statements**

IFRS 10 replaces the requirements in IAS 27, *Consolidated and separate financial statements* relating to the preparation of consolidated financial statements and SIC 12 *Consolidation – Special purpose entities*. It introduces a single control model to determine whether an investee should be consolidated, by focusing on whether the entity has power over the investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect the amount of those returns.

## 1 Significant accounting policies (continued)

### (c) Changes in accounting policies (continued)

As a result of the adoption of IFRS 10, the Group has changed its accounting policy with respect to determining whether it has control over an investee. The adoption does not change any of the control conclusions reached by the Group in respect of its involvement with other entities as at 1 January 2013.

#### **IFRS 11, Joint arrangements**

IFRS 11, which replaces IAS 31, *Interests in joint ventures*, divides joint arrangements into joint operations and joint ventures. Entities are required to determine the type of an arrangement by considering the structure, legal form, contractual terms and other facts and circumstances relevant to their rights and obligations under the arrangement. Joint arrangements which are classified as joint operations under IFRS 11 are recognised on a line-by-line basis to the extent of the joint operator's interest in the joint operation. All other joint arrangements are classified as joint ventures under IFRS 11 and are required to be accounted for using the equity method in the Group's consolidated financial statements. Proportionate consolidation is no longer allowed as an accounting policy choice.

As a result of the adoption of IFRS 11, the Group has changed its accounting policy with respect to its interests in joint arrangements and re-evaluated its involvement in its joint arrangements.

#### **IFRS 12, Disclosure of interests in other entities**

IFRS 12 brings together into a single standard all the disclosure requirements relevant to an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The disclosures required by IFRS 12 are generally more extensive than those previously required by the respective standards. To the extent that the requirements are applicable to the Group, the Group has provided those disclosures in notes 14.

#### **IFRS 13, Fair value measurement**

IFRS 13 replaces existing guidance in individual IFRSs with a single source of fair value measurement guidance. IFRS 13 also contains extensive disclosure requirements about fair value measurements for both financial instruments and non-financial instruments. The adoption of IFRS 13 does not have any significant impact on the fair value measurements of the Group's assets and liabilities.

#### **Revised IAS 19, Employee benefits**

Revised IAS 19 introduces a number of amendments to the accounting for employee benefits. Among them, revised IAS 19 includes minor changes to definition of short-term employee benefits (in respect of the distinction between short-term and long-term). This change in accounting policy does not have any material impact on the Group's financial statements.

## 1 Significant accounting policies (continued)

### (c) Changes in accounting policies (continued)

#### **Annual Improvements to IFRSs 2009-2011 Cycle**

This cycle of annual improvements contains amendments to five standards with consequential amendments to other standards and interpretations. Among them, IAS 1 has been amended to clarify that an opening statement of financial position is required only when a retrospective application of an accounting policy, a retrospective restatement or a reclassification has a material effect on the information presented in the opening statement of financial position. The amendments also remove the requirement to present related notes to the opening statement of financial position when such statement is presented.

#### **Amendments to IFRS 7 – Disclosures – Offsetting financial assets and financial liabilities**

The amendments introduce new disclosures in respect of offsetting financial assets and financial liabilities. Those new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32, *Financial instruments: Presentation* and those that are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments and transactions, irrespective of whether the financial instruments are set off in accordance with IAS 32.

The adoption of the amendments does not have an impact on the Group's financial statements because the Group has not offset financial instruments, nor has it entered into master netting arrangement or similar agreement which is subject to the disclosures of IFRS 7.

### (d) Subsidiaries and non-controlling interests, associates and jointly controlled entities

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

**1 Significant accounting policies (continued)**

- (d) Subsidiaries and non-controlling interests, associates and jointly controlled entities (continued)

Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in preparing the consolidated financial statement. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company.

Change in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within the consolidated equity to reflect the change in relative interests, but no gain or loss is recognised.

An associate is an entity in which the Group has significant influence, but not control or joint control, over its management, including participation in the financial and operating decisions. A jointly controlled entity is an entity which operates under a contractual arrangement establishes that the Group and one or more of the other parties share joint control over the economic activity of the entity. An investment in an associate or a jointly controlled entity is accounted for in the financial statements under the equity method.

- (e) Goodwill

Goodwill represents the excess of

- (i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over
- (ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

## 1 Significant accounting policies (continued)

### (e) Goodwill (continued)

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 1(k)).

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

### (f) Other investments in equity securities

The Group's policies for investments in equity securities, other than investments in subsidiaries, associates and jointly controlled entities, are as follows:

Investments in equity securities are initially stated at fair value, which is their transaction price unless fair value can be more reliably estimated using valuation techniques whose variables include only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification:

Investments in securities held for trading are classified as current assets. Any attributable transaction costs are recognised in profit or loss as incurred. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in profit or loss. The net gain or loss recognised in profit or loss does not include any dividends or interest earned on these investments as these are recognised in accordance with the policies set out in note 1(t).

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the statement of financial position at cost less impairment losses (see note 1(k)).

Investments in securities which do not fall into any of the above categories are classified as available-for-sale securities. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve, except foreign exchange gains and losses resulting from changes in the amortised cost of monetary items such as debt securities which are recognised directly in profit or loss. Dividend income from these investments is recognised in profit or loss in accordance with the policy set out in note 1(t) and, where these investments are interest-bearing, interest calculated using the effective interest method is recognised in profit or loss in accordance with the policy set out in note 1(s). When these investments are derecognised or impaired (see note 1(k)), the cumulative gain or loss is reclassified from equity to profit or loss.

Investments are recognised / derecognised on the date the Group commits to purchase / sell the investments or they expire.

## 1 Significant accounting policies (continued)

### (g) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss.

### (h) Property, plant and equipment

Property, plant and equipment, except for construction in progress, are stated in the statement of financial position at cost less accumulated depreciation and impairment losses (see note 1(k)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labor, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 1(v)).

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

- buildings situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 50 years after the date of completion.
- machinery and equipment 5 – 10 years
- office equipment 3 – 5 years
- motor vehicles 3 – 5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

**1 Significant accounting policies (continued)****(h) Property, plant and equipment (continued)**

Construction in progress represents property, plant and equipment under construction and machinery and equipment under installation and testing. Construction in progress is stated in the statement of financial position at cost less impairment losses (see note 1(k)). The cost includes cost of construction, cost of purchased plant and equipment and other direct costs plus borrowing costs which include interest charges and exchange differences arising from foreign currency borrowings used to finance these projects during the construction period, to the extent that these are regarded as an adjustment to borrowing costs (see note 1(v)).

Construction in progress is not depreciated until such time as the assets are completed and substantially ready for their intended use.

**(i) Intangible assets (other than goodwill)**

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the costs of materials, direct labor, and an appropriate proportion of overheads and borrowing costs, where applicable (see note 1(v)).

Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (see note 1(k)). Other development expenditure is recognised as an expense in the period in which it is incurred.

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 1(k)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

— trademarks and patent	5 – 10 years
— computer software	5 years

Both the period and method of amortisation are reviewed annually.

## 1 Significant accounting policies (continued)

### (j) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement convey a right to use a specific asset or assets of an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

#### (i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

#### (ii) Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in note 1(h). Impairment losses are accounted for in accordance with the accounting policy as set out in note 1(k). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting periods. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

#### (iii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term.

## 1 Significant accounting policies (continued)

### (k) Impairment of assets

#### (i) Impairment of investments in equity securities and receivables

Investments in equity securities and current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

- For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities carried at cost are not reversed.
- For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

## 1 Significant accounting policies (continued)

### (k) Impairment of assets (continued)

#### (i) Impairment of investments in equity securities and receivables (continued)

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivables included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivables directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

#### (ii) Impairment of other assets

Internal and external sources of information are reviewed at each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- pre-paid interests in leasehold land classified as being held under an operating lease;
- construction in progress;
- intangible assets; and
- goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

## 1 Significant accounting policies (continued)

### (k) Impairment of assets (continued)

#### (ii) Impairment of other assets (continued)

##### — Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

##### — Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

##### — Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favorable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

### (l) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

**1 Significant accounting policies (continued)****(l) Inventories (continued)**

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

**(m) Trade and other receivables**

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts (see note 1(k)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

**(n) Interest-bearing borrowings**

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

**(o) Trade and other payables**

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 1(s), trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

**(p) Cash and cash equivalents**

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

## 1 Significant accounting policies (continued)

### (q) Employee benefits

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the period in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

### (r) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to business combinations, or items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities and all deferred tax assets, to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax assets can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

## 1 Significant accounting policies (continued)

### (r) Income tax (continued)

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination) and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future or, in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities and deferred tax assets against deferred tax liabilities, if the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- (i) in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- (ii) in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

## 1 Significant accounting policies (continued)

### (s) Financial guarantees issued, provisions and contingent liabilities

#### (i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the “holder”) for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group’s policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 1(s) (ii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

#### (ii) Other provisions and contingent liabilities

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

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

## 1 Significant accounting policies (continued)

### (t) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

#### (i) Sale of goods

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

#### (ii) Service income

Service income is recognised when the relevant services are rendered.

#### (iii) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

#### (iv) Dividends

- Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.
- Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

#### (v) Interest income

Interest income is recognised as it accrues using the effective interest method.

## 1 Significant accounting policies (continued)

### (t) Revenue recognition (continued)

#### (vi) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

### (u) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates.

The results of operations outside the PRC are translated into Renminbi at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into Renminbi at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

### (v) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

## 1 Significant accounting policies (continued)

### (w) Related parties

- (a) A person, or a close member of that person's family, is related to the Group if that person:
- (i) has control or joint control over the Group;
  - (ii) has significant influence over the Group; or
  - (iii) is a member of the key management personnel of the Group or the Group's parent.
- (b) An entity is related to the Group if any of the following conditions applies:
- (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
  - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
  - (iii) Both entities are joint ventures of the same third party.
  - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
  - (vi) The entity is controlled or jointly controlled by a person identified in (a).
  - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

## 1 Significant accounting policies (continued)

### (x) Segment reporting

Operating segments, and the amount of each segment item reported in the financial statements, are identified from the financial statements provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purpose unless the segments have similar characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customer, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

No segment information is presented as the Group is principally engaged in one operating segment which is the manufacturing and sale of textile products.

## 2 Turnover

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:

	<i>2013</i> <i>RMB'000</i>	<i>2012</i> <i>RMB'000</i>
Sales of textile products:		
- Dobby grey fabrics	<b>526,771</b>	647,892
- Jacquard grey fabrics	<b>210,652</b>	195,237
- Others	<b>12,312</b>	18,100
	<b>749,735</b>	861,229
Processing services income	<b>24,842</b>	10,166
	<b>774,577</b>	871,395

The following is an analysis of the Group's revenue by geographical markets:

	<i>2013</i> <i>RMB'000</i>	<i>2012</i> <i>RMB'000</i>
The PRC	<b>665,930</b>	810,997
Overseas	<b>108,647</b>	60,398
	<b>774,577</b>	871,395

## 2 Turnover (continued)

The Group's customer base is diversified and includes only one customer with whom transactions have exceeded 10% of the Group's revenue for the year ended 31 December 2013. During the year ended 31 December 2013, revenue from sales of textile products to this customer amounted to approximately RMB128,078,000 (2012: RMB181,319,000). During the year ended 31 December 2012, there were two customers with whom transactions have exceeded 10% of the Group's revenue which amounted to approximately RMB181,319,000 and RMB89,165,000 respectively.

## 3 Other net gains

	<i>2013</i> <i>RMB'000</i>	<i>2012</i> <i>RMB'000</i>
Net gain / (loss) on sale of scrap materials	<b>2,498</b>	(362)
Net gain / (loss) on disposal of property, plant and equipment	<b>56</b>	(11)
Net gain on forward exchange contracts	-	629
Government grants	<b>3,607</b>	2,416
Others	<b>(399)</b>	(444)
	<u><b>5,762</b></u>	<u>2,228</u>

## 4 Profit before taxation

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

### (a) Finance income and finance costs

	<i>2013</i> <i>RMB'000</i>	<i>2012</i> <i>RMB'000</i>
<b><i>Finance income</i></b>		
Interest income on bank deposits	<b>(3,978)</b>	(6,157)
Foreign exchange gain arising on settlement or translation of foreign currency monetary items	<b>(16,097)</b>	(9,120)
	<u><b>(20,075)</b></u>	<u>(15,277)</u>

**4 Profit before taxation (continued)**

## (a) Finance income and finance costs (continued)

	<i>2013</i> <i>RMB'000</i>	<i>2012</i> <i>RMB'000</i>
<i>Finance costs</i>		
Interest on bank and other borrowings wholly repayable within five years	<b>16,252</b>	19,952
Less: interest capitalised into property, plant and equipment*	<b>(1,427)</b>	-
	<hr/>	<hr/>
Interest expenses	<b>14,825</b>	19,952
Finance charges on obligations under finance leases	<b>1,565</b>	2,068
Other finance charges	<b>3,498</b>	371
	<hr/>	<hr/>
	<b>19,888</b>	22,391
	<hr/> <hr/>	<hr/> <hr/>

\* The borrowing costs have been capitalised at a rate of 6.06% per annum for the year ended 31 December 2013.

## (b) Staff costs

	<i>2013</i> <i>RMB'000</i>	<i>2012</i> <i>RMB'000</i>
Salaries, wages and other benefits	<b>112,128</b>	91,774
Contributions to defined contribution retirement plan	<b>3,028</b>	2,652
	<hr/>	<hr/>
	<b>115,156</b>	94,426
	<hr/> <hr/>	<hr/> <hr/>

Pursuant to the relevant labor rules and regulations in the PRC, the Group participates in defined contribution retirement schemes (the "Schemes") organised by the relevant local authorities whereby the Group is required to make contributions to the Schemes at certain percentages of the eligible employees' salaries for the years ended 31 December 2013 and 2012. The relevant local government authorities are responsible for the entire pension obligations payable to retired employees. The Group has no other material obligation for the payment of pension benefits associated with the Schemes beyond the annual contributions described above.

**4 Profit before taxation (continued)**

(c) Other items

	<i>2013</i> <i>RMB'000</i>	<i>2012</i> <i>RMB'000</i>
Depreciation	<b>64,895</b>	59,758
Amortisation		
- leasehold land	<b>975</b>	198
- intangible assets	<b>53</b>	65
(Reversal of impairment) / impairment losses on other receivables	<b>(841)</b>	5,000
Auditors' remuneration – audit services	<b>1,000</b>	800
Cost of inventories	<b>680,912</b>	702,528

**5 Income tax**

(a) Taxation in the consolidated statements of profit or loss and other comprehensive income represents:

	<i>2013</i> <i>RMB'000</i>	<i>2012</i> <i>RMB'000</i>
<b>Current tax</b>		
PRC Enterprise Income Tax and PRC dividend withholding tax for the year	<b>10,301</b>	20,634
<b>Deferred tax</b>		
Origination and reversal of temporary differences	<b>250</b>	(3,524)
	<b>10,551</b>	17,110

- (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 years ended 31 December 2013 and 2012, Hong Kong Profits Tax rate is 16.5%. The payments of dividends by the subsidiaries incorporated in Hong Kong are not subject to withholding tax.

**5 Income tax (continued)**

(a) Taxation in the consolidated statements of profit or loss and comprehensive income represents: (continued)

(iii) During 2013 the Group's Chinese subsidiaries are subject to income tax rate of 25% (2012: 25%) except as follows:

During the year ended 31 December 2012, Zibo Yinshilai Textile Co., Ltd., a PRC subsidiary of the Company, was granted the status of a "High and New Technology Enterprise" and, accordingly, entitles to preferential PRC Enterprise Income Tax rate of 15% in 2012.

During the year ended 31 December 2013, Zibo Yinshilai Textile Co., Ltd., has not passed the "High and New Technology Enterprise" status review in 2013. As a result, Zibo Yinshilai Textile Co., Ltd. would not be qualified to entitle to the preferential PRC Enterprise Tax rate of 15% from 2013 onwards (and its applicable income tax rate would increase from 15% to 25%).

Zibo Huiyin Textile Co., Ltd., a PRC subsidiary of the Company and a production-type foreign investment enterprise, entitled to a tax holiday of 2-year full exemption followed by 3-year 50% reduction in the income tax rate commencing from its first profit making year from a PRC tax perspective. Zibo Huiyin Textile Co., Ltd. started its tax holiday in 2008. As such, it is exempted from PRC income tax from 2008 to 2009, and is subject to income tax at 12.5% from 2010 to 2012 and at 25% thereafter.

(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 PRC dividend withholding tax on dividends receivables from their PRC subsidiaries.

## 5 Income tax (continued)

(b) Reconciliation between income tax expense and accounting profit at applicable tax rates:

	2013 RMB'000	2012 RMB'000
Profit before taxation	32,122	91,144
Notional tax on profit before taxation, calculated at the rates applicable to the profits in the jurisdictions concerned	9,956	25,995
Effect of tax benefits	-	(13,746)
Effect of non-deductible expenses	827	2,511
Effect of entities not subject to income tax	(982)	(50)
PRC dividend withholding tax	750	2,400
Income tax expense	10,551	17,110

## 6 Directors' remuneration

Details of the directors' remuneration are as follows:

	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	2013 Total RMB'000
<i>Executive directors</i>					
Liu Dong	-	540	-	5	545
Liu Zongjun	-	282	-	9	291
Tian Chengjie	-	246	-	9	255
<i>Non-executive director</i>					
Yan Tangfeng <sup>1</sup>	-	-	-	-	-
<i>Independent Non-executive directors</i>					
Zhu Beina <sup>2</sup>	-	66	-	-	66
Zhu Ping	-	66	-	-	66
Lam Kaiyeung	-	66	-	-	66
	-	1,266	-	23	1,289

<sup>1</sup> Resigned on 15 May 2013

<sup>2</sup> Resigned on 31 December 2013

**6 Directors' remuneration (continued)**

	<i>Directors' fees</i> RMB'000	<i>Salaries, allowances and benefits in kind</i> RMB'000	<i>Discretionary bonuses</i> RMB'000	<i>Retirement scheme contributions</i> RMB'000	<i>2012 Total</i> RMB'000
<i>Executive directors</i>					
Liu Dong	-	455	-	4	459
Liu Zongjun	-	234	-	8	242
Tian Chengjie	-	198	-	9	207
<i>Non-executive director</i>					
Yan Tangfeng	-	-	-	-	-
<i>Independent Non-executive directors</i>					
Zhu Beina	-	35	-	-	35
Zhu Ping	-	35	-	-	35
Lam Kaiyeung	-	35	-	-	35
	-	992	-	21	1,013

- (i) During the years ended 31 December 2013 and 2012, no amount was paid or payable by the Group to the directors or any of the five highest paid individuals set out in note 7 below as an inducement to join or upon joining the Group or as compensation for loss of office.
- (ii) No directors of the Company waived or agreed to waive any remuneration during the years ended 31 December 2013 and 2012.
- (iii) The Company did not have any share option scheme for the purchase of ordinary shares in the Company during the years ended 31 December 2013 and 2012.

**7 Individuals with highest emoluments**

Of the five individuals with the highest emoluments three (2012: three) were directors whose remuneration is disclosed in Note 6 for the year ended 31 December 2013.

The aggregates of the emoluments in respect of the other two (2012: two) individuals for the year ended 31 December 2013 are as follows:

	<i>2013</i> <i>RMB'000</i>	<i>2012</i> <i>RMB'000</i>
Salaries and other emoluments	<b>331</b>	335
Retirement scheme contributions	<b>10</b>	6
	<b>341</b>	341

**7 Individuals with highest emoluments (continued)**

The emoluments of the two (2012: two) individuals with the highest emoluments for the year ended 31 December 2013 are within the following band:

	<i>2013</i> <i>RMB'000</i>	<i>2012</i> <i>RMB'000</i>
HKD Nil to HKD 1,000,000	<u>2</u>	<u>2</u>

**8 Profit attributable to equity shareholders of the Company**

The consolidated profit attributable to equity shareholders of the Company includes a loss of RMB9,729,000 (2012: a loss of RMB12,370,000) which has been dealt with in the financial statements of the Company.

**9 Earnings per share**

The calculation of basic and diluted earnings per share for the year ended 31 December 2013 is based on the profit attributable to equity shareholders of the Company of RMB21,571,000 (2012: RMB74,034,000) and the weighted average of 800,000,000 shares (2012: 715,761,311 shares) in issue during the year.

Weighted average number of ordinary shares:

	<i>2013</i> <i>Number of</i> <i>shares</i>	<i>2012</i> <i>Number of</i> <i>shares</i>
Issued ordinary shares at 1 January	<b>800,000,000</b>	10,000
Effect of share sub-division	-	990,000
Effect of share issue	-	76,341,311
Effect of capitalisation issue	-	638,420,000
	<u>800,000,000</u>	<u>715,761,311</u>
Weighted average number of ordinary shares at 31 December	<b>800,000,000</b>	715,761,311

There was no difference between basic and diluted earnings per share as there were no dilutive potential shares outstanding for the years ended 31 December 2013 and 2012 respectively.

**10 Dividends**

(a) Dividends payable to equity shareholders of the Company attributable to the year:

	<i>2013</i> <i>RMB'000</i>	<i>2012</i> <i>RMB'000</i>
Interim dividend declared and paid of RMB nil per ordinary share (2012: RMB0.02375)	-	19,000
Final dividend proposed after the end of the reporting period of RMB0.0095 per ordinary share (2012: RMB0.00625)	<b>7,600</b>	5,000
	<b>7,600</b>	24,000

(b) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year:

	<i>2013</i> <i>RMB'000</i>	<i>2012</i> <i>RMB'000</i>
Final dividends in respect of the previous financial year, approved and paid during the year	<b>5,000</b>	-

The directors consider that the dividend payments made during the year are not indicative of the future dividend policy of the Group.

**11 Segment reporting**

No segment information is presented during the year 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.

Additional information about customer base and revenue by geographical markets of the Group has been disclosed in note 2.

## 12 Fixed assets

### Group

	<i>Buildings</i> <i>RMB'000</i>	<i>Machinery and equipment</i> <i>RMB'000</i>	<i>Office equipment</i> <i>RMB'000</i>	<i>Motor vehicles</i> <i>RMB'000</i>	<i>Construction in progress</i> <i>RMB'000</i>	<i>Sub-total</i> <i>RMB'000</i>	<i>Interests in leasehold land under operating leases</i> <i>RMB'000</i>	<i>Total</i> <i>RMB'000</i>
<b>Cost:</b>								
At 1 January 2012	69,664	586,485	8,660	8,885	3,618	677,312	9,892	687,204
Additions	6,399	23,382	1,082	1,968	4,664	37,495	-	37,495
Transfer from construction in progress	1,837	6,445	-	-	(8,282)	-	-	-
Disposals	-	-	-	(215)	-	(215)	-	(215)
<b>At 31 December 2012</b>	<b>77,900</b>	<b>616,312</b>	<b>9,742</b>	<b>10,638</b>	<b>-</b>	<b>714,592</b>	<b>9,892</b>	<b>724,484</b>
At 1 January 2013	77,900	616,312	9,742	10,638	-	714,592	9,892	724,484
Additions	14	10,761	327	1,735	210,050	222,887	40,561	263,448
Transfer from construction in progress	74,199	96,948	-	-	(171,147)	-	-	-
Disposals	-	-	-	(283)	-	(283)	-	(283)
<b>At 31 December 2013</b>	<b>152,113</b>	<b>724,021</b>	<b>10,069</b>	<b>12,090</b>	<b>38,903</b>	<b>937,196</b>	<b>50,453</b>	<b>987,649</b>
<b>Accumulated depreciation and amortisation:</b>								
At 1 January 2012	(13,006)	(249,896)	(8,126)	(4,261)	-	(275,289)	(905)	(276,194)
Charge for the year	(3,423)	(53,775)	(730)	(1,830)	-	(59,758)	(198)	(59,956)
Written back on disposals	-	-	-	194	-	194	-	194
<b>At 31 December 2012</b>	<b>(16,429)</b>	<b>(303,671)</b>	<b>(8,856)</b>	<b>(5,897)</b>	<b>-</b>	<b>(334,853)</b>	<b>(1,103)</b>	<b>(335,956)</b>
At 1 January 2013	(16,429)	(303,671)	(8,856)	(5,897)	-	(334,853)	(1,103)	(335,956)
Charge for the year	(4,376)	(58,236)	(846)	(1,437)	-	(64,895)	(975)	(65,870)
Written back on disposals	-	-	-	254	-	254	-	254
<b>At 31 December 2013</b>	<b>(20,805)</b>	<b>(361,907)</b>	<b>(9,702)</b>	<b>(7,080)</b>	<b>-</b>	<b>(399,494)</b>	<b>(2,078)</b>	<b>(401,572)</b>
<b>Net book value:</b>								
<b>At 31 December 2013</b>	<b>131,308</b>	<b>362,114</b>	<b>367</b>	<b>5,010</b>	<b>38,903</b>	<b>537,702</b>	<b>48,375</b>	<b>586,077</b>
At 31 December 2012	61,471	312,641	886	4,741	-	379,739	8,789	388,528

**12 Fixed assets (continued)**

- (a) The analysis of net book value of properties is as follow:

	<i>Group</i>	
	<i>2013</i>	<i>2012</i>
	<i>RMB'000</i>	<i>RMB'000</i>
Properties held in the PRC		
- medium-term leases	<b>218,586</b>	70,260
<i>Representing:</i>		
- Buildings	<b>131,308</b>	61,471
- Construction in progress	<b>38,903</b>	-
- Interests in leasehold land held for own use under operating leases	<b>48,375</b>	8,789

- (b) Fixed assets with aggregate net book value of RMB50,633,000 (2012: RMB68,164,000) are pledged to secure certain bank loans of the Group totalling RMB74,000,000 as at 31 December 2013 (2012: RMB103,400,000).
- (c) As at 31 December 2013, the ownership certificates for buildings and leasehold land with net book value of RMB116,944,000 (2012: RMB2,292,000) have not been obtained.
- (d) During the year ended 31 December 2013, the Group leases machinery and equipment under finance leases expiring in 2017. At the end of the lease term the Group has the option to purchase the leased machinery and equipment at a price deemed to be a bargain purchase option. None of the leases includes contingent rentals.

During the year ended 31 December 2013, additions to machinery and equipment of the Group financed by new finance leases were RMB76,445,000 (2012: RMB nil). At the end of the reporting period, the net book value of machinery and equipment held under finance leases of the Group was RMB76,170,000 (2012: RMB60,873,000).

### 13 Goodwill

	<i>Group</i>	
	<i>2013</i>	<i>2012</i>
	<i>RMB'000</i>	<i>RMB'000</i>
<b>Cost:</b>		
At 1 January and 31 December	<b>6,394</b>	6,394

The Group's cash-generating units ("CGU") to which the goodwill is allocated is Zibo Yinshilai Textile Co., Ltd. a subsidiary of the Company.

The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. The cash flows are discounted using a discount rate of 10% (2012: 11%). The discount rate used is pre-tax and reflects the specific risks relating to the CGU.

### 14 Investments in subsidiaries

	<i>Company</i>	
	<i>2013</i>	<i>2012</i>
	<i>RMB</i>	<i>RMB</i>
Unlisted shares, at cost	<b>15</b>	15

The following is a list of subsidiaries of the Group.

<i>Name of company</i>	<i>Place of incorporation and operation</i>	<i>Particulars of issued and paid up capital</i>	<i>Proportion of ownership interest</i>		<i>Principal activities</i>
			<i>Held by the Company</i>	<i>Held by a subsidiary</i>	
Power Fit Ltd.	British Virgin Islands	1 share of USD1 each	100%	-	Investment holding
Swift Power Ltd.	British Virgin Islands	1 share of USD1 each	100%	-	Investment holding
YSL (HK) Ltd.	Hong Kong	1 share of HKD1 each	-	100%	Investment holding
Huiyin (HK) Ltd.	Hong Kong	1share of HKD1 each	-	100%	Investment holding
Zibo Yinshilai Textile Co., Ltd. 淄博銀仕來紡織有限公司(Note)	PRC	USD17,400,000	-	100%	Manufacturing and sales of textile products
Zibo Huiyin Textile Co., Ltd. 淄博匯銀紡織有限公司(Note)	PRC	USD15,400,000	-	100%	Manufacturing and sales of textile products
Zibo Yinshilai Textile New Material Technology Co., Ltd. 淄博銀仕來紡織新材料科技有限公司(Note)	PRC	RMB60,000,000	-	100%	Manufacturing and sales of textile products

Note: The English translation of the names is for reference only. The official names of these entities are in Chinese.

**15 Investments in equity securities**

	<i>Group</i>	
	<i>2013</i> <i>RMB'000</i>	<i>2012</i> <i>RMB'000</i>
Unlisted, at cost	<b>1,000</b>	1,000

The investments in unlisted equity securities do not have a quoted market price in an active market. Quoted prices in active market for similar investments or observable market data as significant inputs for valuation techniques are also not available. Therefore, the unlisted equity securities are stated at cost less impairment loss, if any, in the consolidated statement of financial position.

**16 Inventories**

Inventories in the consolidated statements of financial position comprise:

	<i>Group</i>	
	<i>2013</i> <i>RMB'000</i>	<i>2012</i> <i>RMB'000</i>
Raw materials	<b>42,559</b>	51,969
Work in progress	<b>54,303</b>	48,657
Finished goods	<b>65,895</b>	60,362
Consumables	<b>406</b>	1,778
	<b>163,163</b>	162,766

**17 Trade and other receivables**

	<i>Note</i>	<i>Group</i>		<i>Company</i>	
		<i>2013</i> <i>RMB'000</i>	<i>2012</i> <i>RMB'000</i>	<i>2013</i> <i>RMB'000</i>	<i>2012</i> <i>RMB'000</i>
Trade debtors and bills receivables	<i>(a) (b) (c)</i>	<b>91,198</b>	82,027	-	-
Deposits, prepayments and other receivables	<i>(d)</i>	<b>68,005</b>	79,958	-	-
Amounts due from subsidiaries	<i>(e)</i>	-	-	<b>279,426</b>	251,367
		<b>159,203</b>	161,985	<b>279,426</b>	251,367
Deferred expenses expected to be recognised as expense after more than one year	<i>(d)</i>	<b>(3,103)</b>	-	-	-
Trade and other receivables expected to be recovered or recognised as expense within one year		<b>156,100</b>	161,985	<b>279,426</b>	251,367

**17 Trade and other receivables (continued)**

(a) Ageing analysis

Included in trade and other receivables are trade debtors and bills receivables (net of allowance for doubtful debts) with the following ageing analysis as at the end of the reporting period.

	<i>Group</i>	
	<i>2013</i>	<i>2012</i>
	<i>RMB'000</i>	<i>RMB'000</i>
Current	<b>87,821</b>	79,301
Less than 3 months past due	<b>1,636</b>	2,724
3 to 6 months past due	<b>9</b>	2
6 to 12 months past due	<b>1,732</b>	-
Amounts past due	<b>3,377</b>	2,726
	<b>91,198</b>	82,027

Trade debtors and bills receivables are due within 1 to 6 months from the date of billing. Further details on the Group's credit policy are set out in note 25(a).

(b) Impairment of trade debtors and bills receivables

Impairment losses in respect of trade debtors and bills receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade debtors and bills receivables directly (see note 1(k)(i)).

As at 31 December 2013, the Group did not have trade debtors and bills receivables which were individually determined to be impaired (2012: nil).

**17 Trade and other receivables (continued)**

## (c) Trade debtors and bills receivables that are not impaired

The ageing analysis of trade debtors and bills receivables that are neither individually nor collectively considered to be impaired are as follows:

	<i>Group</i>	
	<i>2013</i>	<i>2012</i>
	<i>RMB'000</i>	<i>RMB'000</i>
Neither past due nor impaired	<b>87,821</b>	79,301
Less than 3 months past due	<b>1,636</b>	2,724
3 to 6 months past due	<b>9</b>	2
6 to 12 months past due	<b>1,732</b>	-
	<b>91,198</b>	82,027

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

## (d) Deposits, prepayments and other receivables

	<i>Group</i>	
	<i>2013</i>	<i>2012</i>
	<i>RMB'000</i>	<i>RMB'000</i>
Prepayments relating to purchases of raw materials	<b>32,598</b>	48,578
Prepayments relating to purchases of fixed assets	<b>10,137</b>	25,106
Deferred expenses	<b>4,527</b>	340
Value-added tax recoverable	<b>14,544</b>	-
Other receivables	<b>6,199</b>	5,934
	<b>68,005</b>	79,958

## (e) The amounts due from subsidiaries were unsecured, interest-free and had no fixed repayment terms.

## 18 Pledged bank deposits

Pledged deposits can be analysed as follows:

	<i>Note</i>	<i>Group</i>	
		<i>2013</i>	<i>2012</i>
		<i>RMB'000</i>	<i>RMB'000</i>
Guarantee deposits for issuance of commercial bills and bank acceptance		<b>9,826</b>	1,656
Guarantee deposits for bank loans	<i>(a)</i>	-	180,972
		<b>9,826</b>	182,628

(a) The bank deposits, which are denominated in RMB, are pledged to secure certain foreign currency bank loans of the Group totalling RMB111,906,000 as at 31 December 2012.

## 19 Cash and cash equivalents

	<i>Group</i>		<i>Company</i>	
	<i>2013</i>	<i>2012</i>	<i>2013</i>	<i>2012</i>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Bank deposits	<b>102,352</b>	136,532	<b>5,385</b>	42,511
Cash in hand	<b>23</b>	22	-	-
	<b>102,375</b>	136,554	<b>5,385</b>	42,511

As at 31 December 2013, the Group's cash and cash equivalents of RMB87,881,000 (2012: RMB85,526,000) are denominated in RMB. RMB is not a freely convertible currency and the remittance of funds out of the PRC is subject to the exchange restrictions imposed by the PRC government.

## 20 Trade and other payables

	Note	Group		Company	
		2013 RMB'000	2012 RMB'000	2013 RMB'000	2012 RMB'000
Trade creditors and bills payable	(a)	<b>66,957</b>	49,210	-	-
Receipts in advance		<b>12,554</b>	13,599	-	-
Other creditors and accrued charges	(b)	<b>53,654</b>	25,437	<b>1,633</b>	971
		<b>133,165</b>	88,246	<b>1,633</b>	971

All of the trade and other payables are expected to be settled or recognised as income within one year or are repayable on demand.

## (a) Ageing analysis

Included in trade and other payables are trade creditors and bills payable with the following ageing analysis as of the end of the reporting period:

	Group	
	2013 RMB'000	2012 RMB'000
Due within 3 months or on demand	<b>62,614</b>	45,851
Due after 3 months but within 6 months	<b>1,754</b>	1,191
Due after 6 months but within 12 months	<b>2,589</b>	2,168
	<b>66,957</b>	49,210

## (b) Other creditors and accrued charges

	Group		Company	
	2013 RMB'000	2012 RMB'000	2013 RMB'000	2012 RMB'000
Accrued charges	<b>13,697</b>	12,804	-	-
Tax payable other than income tax	<b>1,593</b>	5,319	-	-
Payables relating to purchases of fixed assets	<b>29,369</b>	3,004	-	-
Advance from an entity	<b>4,979</b>	-	-	-
Other payables	<b>4,016</b>	4,310	<b>1,633</b>	971
	<b>53,654</b>	25,437	<b>1,633</b>	971

## 21 Bank loans

As at 31 December 2013, the bank loans were repayable as follows:

	<i>Group</i>	
	<i>2013</i>	<i>2012</i>
	<i>RMB'000</i>	<i>RMB'000</i>
Within 1 year	<b>224,000</b>	344,106

As at 31 December 2013, the bank loans were secured as follows:

		<i>Group</i>	
	<i>Note</i>	<i>2013</i>	<i>2012</i>
		<i>RMB'000</i>	<i>RMB'000</i>
Bank loans			
- secured	(a)	<b>74,000</b>	215,306
- unsecured		<b>150,000</b>	128,800
		<b>224,000</b>	344,106

(a) As at 31 December 2013, the bank loans were secured by certain assets of the Group as set out below.

	<i>Group</i>	
	<i>2013</i>	<i>2012</i>
	<i>RMB'000</i>	<i>RMB'000</i>
Machinery and equipment	<b>50,633</b>	68,164
Pledged bank deposits	-	180,972
	<b>50,633</b>	249,136

(b) Details of the Group's interest rate risk are set out in note 25(c).

## 22 Obligations under finance leases

As at 31 December 2013, the Group had obligations under finance leases repayable as follows:

	<i>Group</i>		<i>Group</i>	
	<i>As at 31 December 2013</i>	<i>As at 31 December 2012</i>	<i>As at 31 December 2013</i>	<i>As at 31 December 2012</i>
	<i>Present value of the minimum lease payments RMB'000</i>	<i>Total minimum lease payments RMB'000</i>	<i>Present value of the minimum lease payments RMB'000</i>	<i>Total minimum lease payments RMB'000</i>
Within 1 year	22,565	25,951	15,798	16,197
After 1 year but within 2 years	36,826	40,110	-	-
After 2 years but within 5 years	4,357	4,409	-	-
	<u>63,748</u>	<u>70,470</u>	<u>15,798</u>	<u>16,197</u>
Less: total future interest expenses		(6,722)		(399)
Present value of lease obligations		<u>63,748</u>		<u>15,798</u>

## 23 Income tax in the consolidated statement of financial position

(a) Current taxation in the consolidated statement of financial position represents:

	<i>Group</i>	
	<i>2013</i>	<i>2012</i>
	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January	6,441	8,261
Provision for PRC Enterprise Income Tax and PRC dividend withholding tax for the year	10,301	20,634
Tax paid	(11,755)	(22,454)
At 31 December	<u>4,987</u>	<u>6,441</u>

**23 Income tax in the consolidated statements of financial position (continued)**

(b) Deferred tax liabilities recognised:

(i) The components of deferred tax liabilities recognised in the consolidated statements of financial position and the movements during the year are as follows:

**Group**

*PRC dividend  
withholding tax  
RMB'000*

**Deferred tax arising from:**

At 1 January 2012	4,024
Credited to profit or loss	(3,524)
	<hr/>
At 31 December 2012	500
	<hr/> <hr/>
At 1 January 2013	500
Credited to profit or loss	250
	<hr/>
<b>At 31 December 2013</b>	<b>750</b>
	<hr/> <hr/>

(ii) Deferred tax liabilities not recognised

As at 31 December 2013, temporary difference relating to profit earned by the Company's PRC subsidiaries amounted to RMB209,163,000 (2012: RMB193,178,000) for which no deferred tax liabilities were recognised in respect of the PRC dividend withholding tax at 10% that would be payable on the distribution of these profits as the Company has no plan to distribute them in the foreseeable future.

Pursuant to the New Tax Law and its implementation rules, distribution of statutory surplus reserve upon liquidation shall be treated as dividend income which is subject to PRC dividend withholding tax at 10% or less if reduced tax treaties or arrangements. As at 31 December 2013, temporary differences relating to the statutory surplus reserve of the Company's PRC subsidiaries amounted to RMB41,259,000 (2012: RMB38,650,000). No deferred tax liabilities were recognised as at 31 December 2013 as the Company has no plan to liquidate these subsidiaries in the foreseeable future.

## 24 Capital and reserves

### (a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

<i>Company</i>	<i>Share capital RMB'000</i>	<i>Share premium RMB'000</i>	<i>Other reserve RMB'000</i>	<i>Retained earnings RMB'000</i>	<i>Total equity RMB'000</i>
<b>Balance at 1 January 2012</b>	68	-	-	(67)	1
Profit and total comprehensive income for the year	-	-	-	40,214	40,214
Waiver of the amount due to the holding company	-	-	146,736	-	146,736
Shares issuance	10,151	114,805	-	-	124,956
Capitalisation issue	40,358	(40,358)	-	-	-
Dividends declared in respect of the current year	-	-	-	(19,000)	(19,000)
<b>Balance at 31 December 2012</b>	<b>50,577</b>	<b>74,447</b>	<b>146,736</b>	<b>21,147</b>	<b>292,907</b>
<b>Balance at 1 January 2013</b>	50,577	74,447	146,736	21,147	292,907
Loss and total comprehensive income for the year	-	-	-	(4,729)	(4,729)
Dividends declared in respect of the current year	-	-	-	(5,000)	(5,000)
<b>Balance at 31 December 2013</b>	<b>50,577</b>	<b>74,447</b>	<b>146,736</b>	<b>11,418</b>	<b>283,178</b>

## 24 Capital and reserves (continued)

### (b) Share capital

#### (i) Authorised and issued share capital

	2013		2012	
	No. of shares	RMB'000	No. of shares	RMB'000
<b>Authorised:</b>				
Ordinary shares of USD0.01 each	<b>10,000,000,000</b>	<b>632,110</b>	10,000,000,000	632,110
<b>Ordinary shares, issued and fully paid:</b>				
At 1 January	<b>800,000,000</b>	<b>50,577</b>	10,000	68
Share sub-division	-	-	990,000	-
Shares issuance	-	-	160,580,000	10,151
Capitalisation issue	-	-	638,420,000	40,358
At 31 December	<b>800,000,000</b>	<b>50,577</b>	800,000,000	50,577

#### a) Share issuance

The Company was incorporated in the Cayman Island on 24 February 2010 with an authorised share capital of USD50,000 divided into 50,000 shares of USD1.00 each. On the same date, one share of USD1.00 was allotted and issued at par. On 18 June 2011, 9,999 shares of USD1.00 each were allotted and issued as fully paid at par.

On 11 July 2012, the Company allotted and issued 160,580,000 shares of USD0.01 each at the price of HKD1.10 per share, and the listing and dealing in such shares on the Main Board of the Stock Exchange of Hong Kong Limited commenced on 12 July 2012.

#### b) Share sub-division

On 26 June 2012, each issued and unissued share of a par value of USD1.00 in the share capital of the Company was sub-divided into 100 shares of a par value of USD0.01 each (the "share sub-division"). As a result of the share sub-division, the authorised share capital of the Company was USD50,000 divided into 5,000,000 shares of a par value of USD0.01 each and the existing issued shares in the issued share capital of the Company became 1,000,000 shares of a par value of USD0.01 each. The authorised share capital of the Company was further increased to USD100,000,000 divided by 10,000,000,000 shares of USD0.01 each by the creation of further 9,995,000,000 shares of USD0.01 each.

## 24 Capital and reserves (continued)

### (b) Share capital (continued)

#### (i) Authorised and issued share capital (continued)

#### c) Capitalisation issue

On 11 July 2012, the Company capitalised USD6,384,200 standing to the credit of the share premium account of the Company (the “capitalisation issue”) by applying such sum in paying up in full at par 638,420,000 shares for allotment and issue to shareholders whose names appear on the register of members of the Company at the close of business on 26 June 2012 in proportion to their then existing holdings in the Company.

### (c) Nature and purpose of reserves

#### (i) Capital reserve

The capital reserve represents exchange difference arising on capital injections.

#### (ii) Statutory surplus reserve

Pursuant to the Articles of Association of the Company’s subsidiaries in the PRC, appropriations to statutory surplus reserve were made at a certain percentage of after-tax profit (after offsetting prior year losses) determined in accordance with the accounting rules and regulations of the PRC until such reserve reaches 50% of the registered capital of each relevant PRC subsidiary. The statutory surplus reserve can be utilised, upon approval by the relevant authorities, to offset accumulated losses or to increase capital of the subsidiaries and is non-distributable other than in liquidation.

#### (iii) Other reserve

The other reserve represents mainly the difference between the net assets value of subsidiaries acquired and the consideration paid and the waived amount of the amount due to the holding company.

### (d) Distributability of reserves

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

## 24 Capital and reserves (continued)

### (d) Distributability of reserves (continued)

As at 31 December 2013, the aggregate amount of reserves available for distribution to equity shareholders of the Company was RMB85,865,000 (2012: RMB95,594,000). After the end of the reporting period the directors proposed a final dividend of RMB0.00937 per ordinary share (2012: RMB0.00625) amounting to RMB7,496,000 (2012: RMB5,000,000) (note 10). This dividend has not been recognised as a liability at the end of the reporting period.

### (e) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

## 25 Financial risk management and fair values

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

### (a) Credit risk

The Group's credit risk is primarily attributable to bank deposits, and trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

Cash is deposited with financial institutions with sound credit ratings and the Group has exposure limit to any single financial institution. Given their high credit ratings, management does not expect any of these financial institutions will fail to meet their obligations.

**25 Financial risk management and fair values (continued)****(a) Credit risk (continued)**

Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 30 to 180 days from the date of billing. Debtors with balances that are past due are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate. The Group has no concentrations of credit risk in view of its large number customers. The Group did not record significant bad debts losses during the year.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, in the statement of financial position after deducting any impairment allowance. The Group does not provide any other guarantees which would expose the Group to credit risk.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 17.

**(b) Liquidity risk**

The Group has to maintain a suitable level of liquidity to finance the daily operation, capital expenditure and repayment of borrowings. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants.

To ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following tables show the remaining contractual maturities at the end of the reporting period of the Group's and the Company's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group and the Company can be required to pay.

## 25 Financial risk management and fair values (continued)

### (b) Liquidity risk (continued)

#### Group

	2013				
	<i>Contractual undiscounted cash outflow</i>				
	<i>Within 1</i>	<i>More than</i>	<i>More than</i>	<i>Total</i>	<i>Carrying</i>
	<i>year or on</i>	<i>1 year but</i>	<i>2 years</i>		
<i>demand</i>	<i>within</i>	<i>within</i>		<i>amount</i>	
<i>RMB'000</i>	<i>2 years</i>	<i>5 years</i>	<i>RMB'000</i>	<i>RMB'000</i>	
Bank loans	230,253	-	-	230,253	224,000
Trade creditors, bills payable, other creditors and accrued charges	120,611	-	-	120,611	120,611
Obligations under finance leases	25,951	40,110	4,409	70,470	63,748
	<u>376,815</u>	<u>40,110</u>	<u>4,409</u>	<u>421,334</u>	<u>408,359</u>
	2012				
	<i>Contractual undiscounted cash outflow</i>				
	<i>Within 1</i>	<i>More than</i>	<i>More than</i>	<i>Total</i>	<i>Carrying</i>
	<i>year or on</i>	<i>1 year but</i>	<i>2 years</i>		
	<i>demand</i>	<i>within</i>	<i>within</i>		<i>amount</i>
	<i>RMB'000</i>	<i>2 years</i>	<i>5 years</i>	<i>RMB'000</i>	<i>RMB'000</i>
Bank loans	352,615	-	-	352,615	344,106
Trade creditors, bills payable, other creditors and accrued charges	74,647	-	-	74,647	74,647
Obligations under finance leases	16,197	-	-	16,197	15,798
	<u>443,459</u>	<u>-</u>	<u>-</u>	<u>443,459</u>	<u>434,551</u>

#### Company

	2013				
	<i>Contractual undiscounted cash outflow</i>				
	<i>Within 1</i>	<i>More than</i>	<i>More than</i>	<i>Total</i>	<i>Carrying</i>
	<i>year or on</i>	<i>1 year but</i>	<i>2 years</i>		
<i>demand</i>	<i>within</i>	<i>within</i>		<i>amount</i>	
<i>RMB'000</i>	<i>2 years</i>	<i>5 years</i>	<i>RMB'000</i>	<i>RMB'000</i>	
Other creditors and accrued charges	1,633	-	-	1,633	1,633

## 25 Financial risk management and fair values (continued)

## (b) Liquidity risk (continued)

## Company

	2012				Carrying amount RMB'000
	Contractual undiscounted cash outflow				
	Within 1 year or on demand RMB'000	More than 1 year but within 2 years RMB'000	More than 2 years within 5 years RMB'000	Total RMB'000	
Other creditors and accrued charges	971	-	-	971	971

## (c) Interest rate risk

The Group's interest rate risk arises primarily from borrowings. Borrowings issued at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The Group's interest rate profile as monitored by management is set out in (i) below.

## (i) Interest rate profile

The following table details the interest rate profile of the Group's net borrowings (being interest-bearing financial liabilities less pledged bank deposits and bank deposits) at the end of the reporting period.

## Group

	2013		2012	
	Effective interest rate %	RMB'000	Effective interest rate %	RMB'000
<b>Net fixed rate borrowings:</b>				
Obligations under finance leases	6.58%-7.10%	63,748	6.70%	15,798
Bank loans	4.50%-6.00%	204,000	3.55%-7.22%	269,201
Less: pledged bank deposits	3.00%	(9,826)	3.25%-3.50%	(182,628)
		<b>257,922</b>		<b>102,371</b>
<b>Variable rate borrowings:</b>				
Bank loans	6.00%	20,000	2.95%-4.55%	74,905
Less: bank deposits	0.35%	(102,352)	0.01%-0.50%	(136,532)
		<b>(82,352)</b>		<b>(61,627)</b>
Total net interest-bearing borrowings		<b>175,570</b>		<b>40,744</b>

## 25 Financial risk management and fair values (continued)

### (c) Interest rate risk (continued)

#### (ii) Sensitivity analysis

The Group does not account for any fixed rated borrowings at fair value through profit or loss. Therefore a change in interest rate at the reporting date would not affect profit or loss.

It is estimated that a general increase / decrease of 50 basis points in interest rates, with all other variables held constant, would have changed the Group's profit for the year and retained earnings as follows.

#### Group

	2013		2012	
	<i>Increase / (decrease) in basis points</i>	<i>Effect on profit for the year and retained earnings RMB'000</i>	<i>Increase / (decrease) in basis points</i>	<i>Effect on profit for the year and retained earnings RMB'000</i>
<b>Interest rate</b>	<b>50 (50)</b>	<b>309 (309)</b>	50 (50)	289 (289)

### (d) Currency risk

The Group and the Company is exposed to currency risk primarily through sales and purchases which give rise to receivables, payables and cash balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily Euros, United States dollars, Japanese Yen and Hong Kong dollars. At present, the Group has no hedging policy with respect to its foreign exchange exposure.

The following table details the Group's and the Company's exposure at the end of each reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in Renminbi, translated using the spot rate at the year end date. Differences resulting from the translation of the financial statements of non-PRC companies comprising the Group into the Group's presentation currency are excluded.

**25 Financial risk management and fair values (continued)****(d) Currency risk (continued)****Group**

	<i>Exposure to foreign currencies (expressed in Renminbi)</i>							
	2013				2012			
	<i>Euros</i> <i>RMB'000</i>	<i>USD</i> <i>RMB'000</i>	<i>JPY</i> <i>RMB'000</i>	<i>HKD</i> <i>RMB'000</i>	<i>Euros</i> <i>RMB'000</i>	<i>USD</i> <i>RMB'000</i>	<i>JPY</i> <i>RMB'000</i>	<i>HKD</i> <i>RMB'000</i>
Trade and other receivables	-	5,242	-	-	-	7,730	-	-
Cash and cash equivalents	34	8,192	18	6,250	42	7,480	37	43,469
Pledged bank deposits	-	1,098	-	-	-	-	-	-
Trade and other payables	-	(3,700)	-	-	-	(6,439)	-	-
Bank loans	-	-	-	-	-	-	(111,906)	-
Net exposure arising from recognised assets and liabilities	34	10,832	18	6,250	42	8,771	(111,869)	43,469

**Company****Exposure to foreign currencies (expressed in Renminbi)**

	<b>2013</b> <b>HKD</b> <b>RMB'000</b>	<b>2012</b> <b>HKD</b> <b>RMB'000</b>
Amounts due from subsidiaries	221,841	251,367
Cash and cash equivalents	5,385	42,511
Other payables	(1,633)	(971)
Net exposure arising from recognised assets and liabilities	225,593	292,907

The following table indicates the instantaneous change in the Group's and the Company's profit for the year (and retained earnings) that would arise if foreign exchange rates to which the Group and the Company have significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant.

25 Financial risk management and fair values (continued)

(d) Currency risk (continued)

**Group**

	2013		2012	
	<i>Increase / (decrease) in foreign exchange rates</i>	<i>Effect on profit for the year and retained earnings RMB'000</i>	<i>Increase / (decrease) in foreign exchange rates</i>	<i>Effect on profit for the year and retained earnings RMB'000</i>
Euros	10% (10%)	3 3	10% (10%)	4 (4)
United States Dollars	5% (5%)	406 (406)	5% (5%)	373 (373)
Japanese Yen	10% (10%)	1 (1)	10% (10%)	(9,779) 9,779
Hong Kong Dollars	5% (5%)	313 (313)	5% (5%)	2,173 (2,173)

**Company**

	2013		2012	
	<i>Increase / (decrease) in foreign exchange rates</i>	<i>Effect on profit for the year and retained earnings RMB'000</i>	<i>Increase / (decrease) in foreign exchange rates</i>	<i>Effect on profit for the year and retained earnings RMB'000</i>
Hong Kong Dollars	5% (5%)	11,280 (11,280)	5% (5%)	12,016 (12,016)

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' profit after tax and equity measured in the respective functional currencies, translated into Renminbi at the exchange rate ruling at the end of the reporting period for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis is performed on the same basis for 2012.

**25 Financial risk management and fair values (continued)**

## (e) Fair values

The carrying amounts of the Group's financial instruments carried at amortised cost are not materially different from their fair values as at 31 December 2013 and 2012.

## (f) Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments.

## (i) Interest-bearing loans and borrowings and finance lease liabilities

The fair value is estimated as the present value of future cash flows, discounted at the interest rate based on the relevant government yield curve as at the end of the reporting period plus an adequate constant credit spread.

**26 Commitments**

Capital commitments outstanding at 31 December 2013 and 2012 not provided for in the consolidated financial statements were as follows:

	<i>Group</i>	
	<i>2013</i>	<i>2012</i>
	<i>RMB'000</i>	<i>RMB'000</i>
Contracted for	<u>15,968</u>	<u>9,300</u>

**27 Material related party transactions**

The Group has entered into the following material related party transactions during the years ended 31 December 2013 and 2012:

## (a) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the directors as disclosed in note 6 and certain of the highest paid employees as disclosed in note 7, is as follows:

	<i>2013</i>	<i>2012</i>
	<i>RMB'000</i>	<i>RMB'000</i>
Short-term employee benefits	<b>1,801</b>	1,679
Post-employment benefits	<b>33</b>	31
	<u><b>1,834</b></u>	<u>1,710</u>

Total remuneration is disclosed in "staff costs" (see note 4(b)).

**28 Non-adjusting events after the reporting period**

After the end of the reporting period the directors proposed a final dividend. Further details are disclosed in Note 10(a).

**29 Immediate and ultimate controlling parties**

As at 31 December 2013, the directors consider the immediate controlling party of the Group to be Excel Orient Ltd., which is incorporated in the British Virgin Islands, and the ultimate controlling party of the Group to be Mr. Liu Dong.

**30 Accounting estimates and judgments**

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

The selection of critical accounting policies, the judgments and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the financial statements. The significant accounting policies are set out in Note 1. Key sources of estimation uncertainty in the preparation of the financial statements are as follows:

(a) Impairment of non-current assets

If circumstances indicate that the carrying value of a non-current asset may not be recoverable, the asset may be considered “impaired”, and an impairment loss may be recognised in profit or loss. The carrying amounts of non-current assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable and goodwill is tested for impairment at least annually. When such a decline has occurred, the carrying amount is reduced to the recoverable amount.

The recoverable amount is the greater of the fair value less costs to sell and value in use. It is difficult to precisely estimate fair value because quoted market prices for the Group’s assets are not readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present values, which require significant judgement relating to items such as the level of sales volume, selling price and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sales volume and amount of operating costs.

**30 Accounting estimates and judgments (continued)****(b) Depreciation and amortisation**

Fixed assets are depreciated / amortised on a straight-line basis over their estimated useful lives, after taking into account the estimated residual value. The Group reviews the estimated useful lives of the fixed assets regularly in order to determine the amount of depreciation and amortisation expense to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets taking into account anticipated technological changes. The depreciation and amortisation expense for future periods is adjusted if there are significant changes from previous estimates.

**(c) Impairment of trade and other receivables**

The Group evaluates whether there is any objective evidence that trade and other receivables are impaired, and estimates allowances for doubtful debts as a result of the inability of the debtors to make required payments. The Group bases the estimates on the ageing of the trade and other receivables balance, credit-worthiness of the debtors and historical write-off experience. If the financial condition of the debtors were to deteriorate, actual write-offs would be higher than estimated.

**(d) Net realisable value of inventories**

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. These estimates could change significantly as a result of changes in customer preferences and competitor actions. Management reassesses these estimates at the end of each reporting period.

**(e) Taxation**

The Group files income taxes, including PRC dividend withholding tax, with a number of tax authorities. Judgement is required in determining the provision for taxation. There are many transactions and calculations for which the ultimate tax determinations are uncertain during the ordinary course of business, where the final tax outcomes of these matters are different from the amounts originally recorded, the differences may impact the current income tax and deferred income tax provisions in the period in which the final tax outcomes become available.

**31 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2013**

Up to the date of issue of these financial statements, the IASB has issued a few amendments and new standards which are not yet effective for the year ended 31 December 2013 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	<i>Effective for accounting periods beginning on or after</i>
Amendments to IAS 32, Offsetting financial assets and financial liabilities	1 January 2014
Amendments to IAS 39, Novation of derivatives and continuation of hedge accounting	1 January 2014
IFRS 9, Financial instruments	1 January 2015

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.