Shaoxing Shenhua Textile Co., Ltd

Shenhua International Limited
ACN 134 436 730

Level 43, ANZ Tower
55 Collin Street
Melbourne, VIC 3000
Australia

Australian Securities Exchange Announcement

31 August 2009

The Manager
Companies Announcement Officer
Australian Securities Exchange
Electronic Lodgement

Dear Sir/Madam

Shenhua International Limited (SIL)(ASX:SHU) – Lodgment of Appendix 4E (preliminary final report) for Shaoxing Shenhua Textile Co., Limited

In fulfillment of one of the listing conditions for SIL which is set out in the letters from Ms Alice Cope dated 23 and 28 July 2009 respectively, please find attached the Appendix 4E in relation to SIL's subsidiary company, Shaoxing Shenhua Textile Co., Limited.

On behalf of the board

薛涛

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Company Secretary
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APPENDIX 4E

Shaoxing Shenhua Textile Co., Ltd

Results for Announcement to the Market

Preliminary Final Report
For the year ended 30 June 2009

(Prepared under International Financial Reporting Standards)

Shaoxing Shenhua Textile Co., Ltd

Appendix 4E

Preliminary Final Report to the Australian Securities Exchange

30 June 2009

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Shaoxing Shenhua Textile Co., Ltd

Appendix 4E

Preliminary Final Report to the Australian Securities Exchange

Name of Entity	**Shaoxing Shenhua Textile Co., Ltd**
ABN	N/A
Financial Year Ended	30 JUNE 2009
Previous Corresponding Reporting Period	30 JUNE 2008

Results for Announcement to the Market

	Current Period **RMB**	**Previous Corresponding Period** **RMB**	**Percentage increase/(decrease) over previous corresponding period**
Revenue from ordinary activities	605,367,591	534,365,409	13.29
Profit / (loss) from ordinary activities after tax attributable to members	65,810,814	41,831,013	57.33
Net profit / (loss) for the period attributable to members	65,810,814	41,831,013	57.33
Earnings per share (RMB per share)	The company is the type of company within the Peoples Republic of China which does not have a share capital. As a result, EPS is not a calculable number.		

Dividends (distributions)	**Amount per security**	**Franked amount per security**
Final Dividend	N/A	N/A
Interim Dividend	N/A	N/A
Record date for determining entitlements to the dividends (if any)	N/A	

Brief explanation of any of the figures reported above necessary to enable the figures to be understood:

Please refer to attached financial report. In a difficult trading year in China, the company has been able to maintain its sales whereas it has been able to take advantage of lower raw material cost prices.

As a result the company has been able to meet its Prospectus estimates.

Shaoxing Shenhua Textile Co., Ltd

Dividends

Date the dividend is payable	N/A
Record date to determine entitlement to the dividend	N/A
Amount per security	N/A
Total dividend	N/A
Amount per security of foreign sourced dividend or distribution	N/A
Details of any dividend reinvestment plan in operation	N/A
The last date for receipt of an election notice for participation in any dividend reinvestment plan	N/A

NTA Backing

	Current Period	**Previous corresponding period**
Net tangible asset backing per ordinary share	The company is the type of company within the Peoples Republic of China which does not have a share capital. As a result, NTA/share is not a calculable number.	

Other Significant Information Needed by an Investor to Make an Informed Assessment of the Entity's Financial Performance and Financial Position

Nil

Commentary on the Results for the Period

The earnings per security and the nature of any dilution aspects:

The company is the type of company within the Peoples Republic of China which does not have a share capital. As a result, EPS is not a calculable number.

Returns to shareholders including distributions and buy backs:

N/A

The results of segments that are significant to an understanding of the business as a whole:

The company manufactures and sells its product predominantly within China and as a result has one business segment.

Discussion of trends in performance:

Please refer to attached financial report and explanatory notes

Any other factor which has affected the results in the period or which are likely to affect results in the future, including those where the effect could not be quantified:

N/A

Audit Status

This report has been audited.

Shaoxing Shenhua Textile Co., Ltd

Shaoxing Shenhua Textile Co., Ltd

Contents

Independent auditor's report to the shareholder of Shaoxing Shenhua Textile Co., Ltd

We have audited the accompanying financial statements of Shaoxing Shenhua Textile Co., Ltd which comprise the balance sheet as at 30 June 2009 and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards.

These financial statements have been prepared solely for the purpose to provide information required for the preparation of the consolidated financial statements of Shenhua International Limited.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 directors, as well as evaluating the overall presentation of the 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, on the basis of preparation set out in Note 2(a) to the financial statements, the financial statements present fairly, in all material respects, the financial position of the company for the year ended 30 June 2009, and the results of its operations, changes in equity and cash flows for the year ended, to give information required for the preparation of the consolidated financial statements of Shenhua International Limited in accordance with International Financial Reporting Standards.

Foo Kon Tan Grant Thornton
Public Accountants and
Certified Public Accountants

Singapore,

The annexed notes form an integral part of and should be read in conjunction with these financial statements.

Balance sheet

	Note	**30 June 2009** **RMB**	30 June 2008 RMB
ASSETS			
Non-Current			
Property, plant and equipment	5(a)	**114,927,827**	127,156,835
Land-use-rights	5(b)	**18,255,773**	4,575,688
Investment	6(a)	**1,575,000**	1,575,000
		134,758,600	133,307,523
Current			
Land-use-rights	5(b)	**412,968**	121,966
Investment	6(b)	**800,000**	-
Inventories	7	**53,370,830**	66,051,590
Trade and other receivables	8	**139,873,533**	138,501,712
Note receivables	9	**70,000,000**	-
Cash and cash equivalents	10	**286,217,015**	189,498,598
		550,674,346	394,173,866
Total assets		**685,432,946**	527,481,389
EQUITY			
Capital and Reserves			
Capital contribution	11	**51,756,910**	51,756,910
Retained profits		**123,929,564**	64,829,230
Statutory common reserve	12	**12,998,989**	6,288,509
		188,685,463	122,874,649
Liabilities			
Current			
Trade and other payables	13	**28,122,478**	19,856,712
Amount owing to a director	14	**-**	261,000
Note payables	15	**282,957,200**	212,706,786
Current tax payable		**20,167,805**	9,122,242
Bank borrowings	16	**165,500,000**	162,660,000
		496,747,483	404,606,740
Total equity and liabilities		**685,432,946**	527,481,389

The annexed notes form an integral part of and should be read in conjunction with these financial statements.

Income statement

	Note	**30 June 2009** **RMB**	30 June 2008 RMB
Revenue	4	**605,367,591**	534,365,409
Cost of sales	17(a)	**(487,403,901)**	(456,862,401)
Gross profit		**117,963,690**	77,503,008
Other operating income	17(b)	**10,637,819**	16,694,678
Distribution expenses	17(c)	**(7,937,884)**	(9,834,957)
Administrative expenses	17(d)	**(14,203,484)**	(15,484,430)
Finance expenses	17(e)	**(18,281,060)**	(17,065,928)
Profit before taxation	18	**88,179,081**	51,812,371
Taxation	19	**(22,368,267)**	(9,981,358)
Profit for the year attributable to shareholder		**65,810,814**	41,831,013

The annexed notes form an integral part of and should be read in conjunction with these financial statements.

Statement of changes in equity

		Capital contribution RMB	Retained profits RMB	Statutory common reserve RMB	Total RMB
Balance as at 1 July 2007	2007	51,756,910	27,534,433	1,752,293	81,043,636
Net profit and total recognised income for the year		-	41,831,013	-	41,831,013
Transfer to statutory common reserve		-	(4,536,216)	4,536,216	-
Balance as at 30 June 2008	2008	**51,756,910**	**64,829,230**	**6,288,509**	**122,874,649**
Net profit and total recognised income for the year		**-**	**65,810,814**	**-**	**65,810,814**
Transfer to statutory common reserve		**-**	**(6,710,480)**	**6,710,480**	**-**
Balance as at 30 June 2009	2009	**51,756,910**	**123,929,564**	**12,998,989**	**188,685,463**

The annexed notes form an integral part of and should be read in conjunction with these financial statements.

Cash flow statement

	30 June 2009 RMB	30 June 2008 RMB
Cash Flows from Operating Activities		
Profit before taxation	**88,179,081**	51,812,371
Adjustments for:		
Depreciation of property, plant and equipment	**14,919,865**	13,253,197
Amortisation of land use rights	**246,518**	121,966
Dividend income	**(225,000)**	(225,000)
Gain on disposal of property, plant and equipment	**(64,806)**	(49,894)
Impairment on trade receivables no longer required	**-**	(301,235)
Impairment on trade receivables	**195,848**	-
Interest income	**(7,774,689)**	(15,336,346)
Interest expense	**18,281,060**	17,065,928
Operating profit before working capital changes	**113,757,877**	66,340,987
Increase/decrease in deposits pledged with banks	**(96,572,860)**	13,584,210
Decrease/(increase) in inventories	**12,680,760**	(25,008,042)
(Increase)/decrease in operating receivables	**(54,626,804)**	(11,537,574)
Increase/(decrease) in operating payables	**8,373,405**	(5,476,832)
Cash (used in)/generated from operations	**(16,387,622)**	37,902,749
Income tax paid	**(11,322,704)**	(2,249,871)
Interest paid	**(18,281,060)**	(16,616,153)
Net cash (used in)/generated from operating activities	**(45,991,386)**	19,036,725
Cash Flows from Investing Activities		
Acquisition of investment	**(800,000)**	-
Acquisition of property, plant and equipment	**(2,706,051)**	(19,219,671)
Acquisition of land-use-rights	**(14,217,605)**	(4,270,370)
Proceed from disposal of property, plant and equipment	**80,000**	1,286,248
Dividend received	**225,000**	225,000
Interest received	**4,497,134**	9,104,831
Net cash used in investing activities	**(12,921,522)**	(12,873,962)
Cash Flows from Financing Activities		
Note payables	**70,250,414**	(9,707,114)
Note receivables	**(70,000,000)**	-
Bank loans obtained	**313,700,000**	162,660,000
Bank loans repaid	**(310,860,000)**	(205,949,537)
Advances to - third parties	**10,180,000**	8,440,000
- related parties	**46,156,690**	35,650,053
Advances from - third parties	**-**	(16,084,454)
- a director	**(261,000)**	-
- a related party	**(107,639)**	(482,469)
Net cash generated from/(used in) financing activities	**59,058,465**	(25,473,521)
Net increase/(decrease) in cash and cash equivalents	**145,557**	(19,310,758)
Cash and cash equivalents at beginning of year	**88,193,638**	107,504,396
Cash and cash equivalents at end of year (Note 10)	**88,339,195**	88,193,638

The annexed notes form an integral part of and should be read in conjunction with these financial statements.

Notes to the financial statements

General information

The financial statements of Shaoxing Shenhua Textile Co., Ltd are prepared for the year ended 30 June 2009.

The registered office is located at Shenhua Building, Yangxunqiao Industrial Area, Shaoxing County, Zhejiang Province, The People's Republic of China ("PRC").

The company was incorporated as a limited liability company and domiciled in the PRC. The company was incorporated on 1 February 1999.

The principal activities of the company are those of the manufacture and sale of fabric and bedding products.

The immediate holding company of the company is Talent & Value International Investment Limited (TVI), a company incorporated in Hong Kong. The ultimate holding company is Joyful Huge Holdings Limited, a company incorporated in Samoa.

2(a) Basis of preparation

The financial statements, expressed in Renminbi ("RMB"), are prepared in accordance with International Financial Reporting Standards ("IFRS"). The financial statements have been prepared under the historical cost convention, except as disclosed in the accounting policies below.

Significant accounting estimates and judgements
The preparation of the financial statements in conformity with IFRS requires the use of judgements, estimates and assumptions, if any, that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the financial year. Although these estimates are based on management's best knowledge of current events and actions, actual results may differ from those estimates.

The critical accounting estimates and assumptions used and areas involving a high degree of judgements are described below:

Critical assumption used and accounting estimates in applying accounting policies

Income tax
Significant judgement is required in determining the capital allowance and deductibility of certain expenses during the estimation of the provision for income tax. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The company recognises liabilities based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax and deferred tax provisions, if any in the period in which such determination is made.

2(a) Basis of preparation (cont'd)

Depreciation of property, plant and equipment
Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives. Management estimates the useful lives of these property, plant and equipment to be 5-20 years. The carrying amount of the company's property, plant and equipment at 30 June 2009 was RMB 114,927,827 (2008 - RMB 127,156,835). Changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of these assets, therefore future depreciation charges could be revised.

Allowance for inventory obsolescence
Inventories are stated at the lower of cost and net realisable value. In determining the net realisable value, the directors estimate the future selling price in the ordinary course of business, less the estimated costs of selling expenses. The carrying amounts of inventories at the balance sheet date are disclosed in Note 7 to the financial statements.

Critical judgements and key sources of estimation uncertainty
In the process of applying the entity's accounting policy, which are described in Note 3, management has made the following judgements that have the most significant effect on the amounts recognised in the financial statements:

Impairment of plant and equipment The company assesses annually whether plant and equipment have any indication of impairment in accordance with the accounting policy. The recoverable amounts of plant and equipment have been determined based on value-in-use calculations. These calculations require the use of judgement and estimates.

Allowance for bad and doubtful debts The company makes allowances for bad and doubtful debts based on an assessment of the recoverability of trade and other receivables. Allowances are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts requires use of judgement and estimates. Where the expected is different from the original estimate, such difference will impact the carrying value of trade and other receivables and doubtful debts expenses in the period in which such estimate has been changed.

2(b) Change in accounting policies

On 1 July 2008, the company adopted the new or revised IFRS and Interpretations to International Financial Reporting Interpretations Committee ("IFRIC") that are mandatory for application from that date. Changes to the company's accounting policies have been made as required, in accordance with the relevant transitional provisions in the respective IFRS and IFRIC.

The following are the IFRIC that are relevant to the company:

IFRIC 12	Service Concession Agreements
IFRIC 13	Customer Loyalty Programmes
IFRIC 14	IAS 19 - The Limit on a Defined Benefit Assets, Minimum Funding Requirement and their interactions

The adoption of the above IFRIC did not result in substantial changes to the company's accounting policies nor any significant impact on these financial statements.

2(c) IFRS not yet effective

Certain new standards, amendments and interpretations to existing standards have been published and are mandatory for the company's accounting periods beginning on or after 1 July 2009 or later periods and which the company has not early adopted. The following IFRS and IFRIC that are applicable to the company are set out below:

IAS 1 (Amendment)	Presentation of Financial Statements - amendments relating to comprehensive income statement - amendments relating to Disclosure of puttable instruments and obligations arising on liquidation
IAS 7 (Amendment)	Statement of Cash Flows
IAS 16 (Amendment)	Property, Plant and Equipment
IAS 17 (Amendment)	Leases
IAS 19 (Amendment)	Employee Benefits
IAS 20 (Amendment)	Governments Grants and Disclosures of Government Assistance
IAS 23 (Amendment)	Borrowing Costs
IAS 27	Consolidated and Separate Financial Statements - consequential amendments arising from amendments to IFRS 3 - amendment relating to cost of an investment on first time adoption
IAS 28	Investments in Associates - consequential amendments arising from amendments to IFRS 3
IAS 29 (Amendment)	Financial Reporting in Hyperinflationary Economies
IAS 31	Interests in Joint Ventures - consequential amendments arising from amendments to IFRS 3
IAS 32	Financial instruments: Presentation - amendments relating to puttable instruments and obligations arising on liquidation
IAS 36 (Amendment)	Impairment of Assets
IAS 38 (Amendment)	Intangible Assets
IAS 39 (Amendment)	Financial instruments: Recognition and Measurement
IAS 40 (Amendment)	Investment Property
IAS 41 (Amendment)	Agriculture
IFRS 1	First time adoption of IFRS - amendments relating to cost of an investment on first-time adoption - amendments relating to oil and gas assets and determining whether an arrangement contains a lease
IFRS 2	Share-based Payment - amendments relating to vesting conditions and cancellations - amendments relating to group cash-settled share-based payment transactions
IFRS 3	Business Combinations - comprehensive revision on applying the acquisition method
IFRS 5 (Amendment)	Non-current Assets Held for Sale and Discontinued operations
IFRS 8 (Amendments)	Operating segments
IFRIC 9	Reassessment of Embedded Measurement
IFRIC 16	Hedges of a Net Investment in a Foreign Operation
IFRIC 17	Distribution of Non-cash Assets to Owners
IFRIC 18	Transfer of Assets from Customers

The directors do not anticipate that the adoption of these IFRS and IFRIC in future periods will have a material impact on the financial statements, except as indicated below:

<u>IAS 1 Presentation of Financial Statements - Revised presentation</u>
The revised IAS 1 requires owner and non-owner changes in equity to be presented separately. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line item. In addition, the revised standard introduces the statement of comprehensive income: it presents all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense, either in one single statement, or in two linked statements.

The company is currently evaluating the format to adopt.

3 Summary of significant accounting policies

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Depreciation is computed utilizing the straight-line method to write off the cost of the assets after deducting the residual value over their estimated useful lives as follows:

Buildings	20 years
Plant and machinery	10 years
Office equipment	5 years
Motor vehicles	5 years
Laboratory equipment	5 years
Kitchen equipment	5 years

No depreciation has been provided for building construction-in-progress.

The residual values and useful lives of property, plant and equipment are reviewed and adjusted as appropriate at each balance sheet date. The useful life and depreciation method are reviewed at each financial year-end to ensure that the method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property, plant and equipment. The effects on any revision are recognised in the income statement when the change arise.

The cost of property, plant and equipment includes expenditure that is directly attributable to the acquisition of the items. Dismantlement, removal or restoration costs are included as part of the cost of property, plant and equipment if the obligation for dismantlement, removal or restoration is incurred as a consequence of acquiring or using the asset. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

For acquisitions and disposals during the financial year, depreciation is provided from the month after acquisition and to the month of disposal respectively. Fully depreciated property, plant and equipment, if any, are retained in the books of accounts until they are no longer in use.

Subsequent expenditure relating to property, plant and equipment that have been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the standard of performance of the asset before the expenditure was made, will flow to the company and the cost can be reliably measured. Other subsequent expenditure is recognised as an expense during the financial year in which it is incurred.

On disposal of an item of property, plant and equipment, the difference between the disposal proceeds and its carrying amount is recognised in the income statement.

Land use rights

Land use rights are stated at cost and are amortised, over the period of lease of approximately 50 years, on a straight-line basis to the profit and loss statement.

Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is determined on a weighted-average basis. In the case of manufactured inventories, cost consists of cost of raw materials, direct labour and an appropriate proportion of production overheads.

Allowance is made, where necessary, for obsolete, slow-moving and defective inventories in arriving at the

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

3 Summary of significant accounting policies (cont'd)

Financial assets

Financial assets include cash and financial instruments. Financial assets, other than hedging instruments, can be divided into the following categories: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired. The designation of financial assets is re-evaluated and classification may be changed at the reporting date with the exception that the designation of financial assets at fair value through profit or loss is not revocable.

All financial assets are recognised on their trade date - the date on which the company commits to purchase or sell the asset. Financial assets are initially recognised at fair value, plus directly attributable transaction costs except for financial assets at fair value through profit or loss, which are recognised at fair value.

Derecognition of financial instruments occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred. An assessment for impairment is undertaken at least at each balance sheet date whether or not there is objective evidence that a financial asset or a group of financial assets is impaired.

The company does not have any investments to be classified as assets at fair value through profit or loss or assets held-to-maturity except for investments in a financial institution and unquoted unit trust fund which were classified as available-for-sale.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the company provides money, goods or services directly to a debtor with no intention of trading the receivables. They are included in current assets, except for maturities greater than 12 months after the reporting period. These are classified as non-current assets, if any.

Loans and receivables are subsequently measured at amortised cost using the effective interest method less provision for impairment. Any change in their value is recognised in income statement. Any reversal shall not result in a carrying amount that exceeds what the amortised cost would have been had any impairment loss not been recognised at the date the impairment is reversed. Any reversal is recognised in the income statement.

Receivables are provided against when there is objective evidence that the company will not be able to collect all amounts due to it in accordance with the original terms of the receivables. The amount of the write-down is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows.

Loans and receivables include trade and other receivables, note receivables, related party balances and deposits held in banks.

Available-for-sale financial assets

Available-for-sale financial assets included non-derivative financial assets that did not qualify for inclusion in any of the other categories of financial assets. They were included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

All financial assets within this category were subsequently measured at fair value with changes in value recognised in equity, net of any effects arising from income taxes, until the financial assets was disposed of or is determined to be impaired, at which time the cumulative gains or losses previously recognised, if any, in equity was included in the income statement for the period.

When a decline in the fair value of an available-for-sale financial asset had been recognised directly in equity and there was objective evidence that the asset was impaired, the cumulative loss that had been recognised directly in equity shall be removed from the equity and recognised in the income statement even though the

financial asset had not been derecognised.

Financial assets (cont'd)

Available-for-sale financial assets (cont'd)

The amount of the cumulative loss that was removed from equity and recognised in income statement shall be the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in income statement.

Impairment losses recognised in income statement for unquoted equity investments classified as available-for-sale were not subsequently reversed through income statement. Impairment losses recognised in income statement for debt instruments classified as available-for-sale were subsequently reversed in income statement if an increase in the fair value of the instrument can be objectively related to an event occurring after the recognition of the impairment loss.

Determination of fair value

The fair values of quoted financial assets are based on current bid prices. If the market for a financial asset is not active, the company establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing or valuation models.

Cash and cash equivalents

For the purpose of presentation in the cash flow statement, cash and cash equivalents include cash on hand and deposits with financial institutions which are subject to an insignificant risk of change in value, and bank overdrafts, if any.

Related parties Related parties are entities with one or more common direct/indirect shareholders and/or directors and in which one party has the ability to control or exercise significant influence over the other party in financial and operating decision making.

Government grant

Government grant is recognised as income over the periods necessary to match the grant with the related costs which they are intended to compensate.

Government grant is not recognised as income until there is a reasonable assurance that the company will comply with the conditions attaching to it.

Receipt of the grant will not of itself provide conclusive evidence that the conditions attaching to the grant have been or will be fulfilled.

Financial liabilities

The company's financial liabilities include borrowings, note payables, trade and other payables and related party balances.

Financial liabilities are recognised when the company becomes a party to the contractual agreements of the instrument. All interest related charges is recognised as an expense in "finance costs" in the income statement.

Borrowings are recognised initially at fair value of proceeds received less attributable transaction costs, if any. Borrowings are subsequently stated at amortised cost which is the initial fair value less any principal repayments. Any difference between the proceeds (net of transaction costs) and the redemption value is taken to the income statement over the period of the borrowings using the effective interest method.

Financial liabilities (cont'd)

Borrowings which are due to be settled within twelve months after the balance sheet date are included in current borrowings in the balance sheet even though the original terms was for a period longer than twelve months and an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the balance sheet date and before the financial statements are recognised for issue. Borrowings to be settled within the company's normal operating cycle are considered current. Other borrowings due to be settled more than twelve months after the balance sheet date are included in non-current borrowings in the balance sheet.

Equity instruments issued by the company, if any, are recorded at the proceeds received, net of direct issue costs

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

Financial guarantees

The company has issued corporate guarantees to banks for bank borrowings of third parties. These guarantees are financial guarantee contracts as they require the company to reimburse the banks if the third parties fails to make principal or interest payments when due in accordance with the terms of its borrowings

Financial guarantee contracts, if any, are initially recognised at their fair value plus transaction costs.

Financial guarantee contracts are subsequently amortised to the income statement over the period of third parties borrowings, unless the company has incurred an obligation to reimburse the bank for an amount higher than the unamortised amount. In this case, the financial guarantee contracts shall be carried at the expected amount payable to the bank.

Employee benefits

Pension obligations The company participates in the defined contribution national pension and other welfare schemes as provided by the laws in the PRC. The contributions to these schemes are charged to the income statement in the period to which the contributions relate.

Provisions

Provisions are recognised when the company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The directors review provisions annually and where in their opinion, they are inadequate or excessive, due adjustment is made.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to a liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as finance costs.

Leases

Operating lease

Leases of assets in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

Rentals on operating leases are charged to the income statement on a straight-line basis over the lease term. Lease incentives, if any, are recognised as an integral part of the net consideration agreed for the use of the lease asset. Penalty payments on early termination, if any, are recognised in the income statement when incurred.

Income taxes The liability method of tax effect accounting is adopted by the company. Current taxation is provided at the current taxation rate based on the tax payable on the income for the financial period that is chargeable to tax. Deferred taxation is provided at the current taxation rate on all temporary differences existing at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred tax liabilities are recognised for all taxable temporary differences.

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

The statutory tax rates enacted at the balance sheet date are used to determine deferred income tax.

Impairment of non-financial assets

The carrying amounts of the company's non-financial assets subject to impairment are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

If it is not possible to estimate the recoverable amount of the individual asset, then the recoverable amount of the cash-generating unit to which the assets belongs will be identified.

For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

All individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss, if any, is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell and value in use, based on an internal discounted cash flow evaluation.

An impairment loss is charged to the income statement.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount or when there is an indication that the impairment loss recognised for the asset no longer exists or decreases.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognised.

A reversal of an impairment loss is credited as income in the income statement.

Revenue recognition

Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer. Revenue excludes value added tax. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

Revenue from the sale of fabric and bedding products is recognised when goods and services are sold and rendered to customers, which generally coincides with their delivery and acceptance.

Interest income is recognised on a time-apportioned basis using the effective interest method.

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

Functional currency

Items included in the financial statements of the company are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to the company ("the functional currency"). The financial statements of the company are presented in RMB, which is also the functional currency of the company.

Conversion of foreign currencies

Monetary assets and liabilities in foreign currencies are translated into RMB at rates of exchange closely approximating those ruling at balance sheet date. Transactions in foreign currencies are converted at rates closely approximating those ruling at transaction dates. Exchange differences arising from such transactions are recorded in the income statement in the period in which they arise.

Financial instruments

Financial instruments carried on the balance sheet include cash and cash equivalents, financial assets and financial liabilities. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item. These instruments are recognised when contracted for.

Disclosures on financial risk management objectives and policies are provided in Note 23.

4 Revenue

Revenue represents the sale of fabric and bedding products, excluding applicable value-added tax.

5(a) Property, plant and equipment

	Buildings RMB	Plant and machinery RMB	Office equipment RMB	Motor vehicles RMB	Laboratory equipment RMB	Kitchen equipment RMB	Construction-in -progress RMB	Total RMB
Cost								
At 1 July 2007	38,499,826	114,581,036	2,750,489	3,414,102	-	94,350	769,493	160,109,296
Additions	2,220,000	14,352,694	30,733	1,394,279	88,000	2,479	1,131,486	19,219,671
Disposals	(1,118,248)	(430,000)	-	-	-	-	-	(1,548,248)
Reclassification	1,900,979	-	-	-	-	-	(1,900,979)	-
At 30 June 2008	41,502,557	128,503,730	2,781,222	4,808,381	88,000	96,829	-	177,780,719
Additions	500,000	188,797	26,103	139,800	-	-	1,851,351	2,706,051
Disposals	-	-	-	(151,939)	-	-	-	(151,939)
Reclassification	1,851,351	-	-	-	-	-	(1,851,351)	-
At 30 June 2009	**43,853,908**	**128,692,527**	**2,807,325**	**4,796,242**	**88,000**	**96,829**	-	**180,334,831**
Accumulated depreciation								
At 1 July 2007	2,734,708	32,397,697	427,218	2,072,165	-	50,793	-	37,682,581
Depreciation for the year	1,742,977	10,491,407	480,667	507,706	14,520	15,920	-	13,253,197
Disposals	(163,544)	(148,350)	-	-	-	-	-	(311,894)
At 30 June 2008	4,314,141	42,740,754	907,885	2,579,871	14,520	66,713	-	50,623,884
Depreciation for the year	1,922,420	11,897,083	477,686	596,379	15,840	10,457	-	14,919,865
Disposals	-	-	-	(136,745)	-	-	-	(136,745)
At 30 June 2009	**6,236,561**	**54,637,837**	**1,385,571**	**3,039,505**	**30,360**	**77,170**	-	**65,407,004**
Net book value								
At 30 June 2009	**37,617,347**	**74,054,690**	**1,421,754**	**1,756,737**	**57,640**	**19,659**	-	**114,927,827**
At 30 June 2008	37,188,416	85,762,976	1,873,337	2,228,510	73,480	30,116	-	127,156,835

5(a) Property, plant and equipment (cont'd)

	30 June 2009 RMB	30 June 2008 RMB
Depreciation of property, plant and equipment charged to:		
Cost of sales	**12,851,195**	11,835,201
Administrative expenses	**2,068,670**	1,417,996
	14,919,865	13,253,197

(i) Buildings on leasehold land located at Yangxunqiao Industrial Area, Shaoxing County, Zhejiang Province, The Republic of China comprise:

Location	Built-in area (sq. metres)
- New factory area	*40,882
- Hostel & old factory area	*14,914
- Office building	*1,106
- Warehouses	17,432
- Administrative building	10,835
	85,169

* The license to occupy the buildings is currently under registration process to be approved by the government agency

(ii) As at the balance sheet date, property, plant and equipment of the company which have been pledged to certain financial institutions to secure bank facilities are as follows:

	30 June 2009 RMB	30 June 2008 RMB
At cost		
Plant and machinery		
- Note 16 (m)	**-**	60,960,828
- Note 16 (n)	**29,557,659**	-
- Note 16 (o)	**60,960,828**	-
	90,518,487	60,960,828

The net book value of these plant and machinery are RMB 50,859,578 (2008 - RMB 40,386,549).

5(b) Land use rights

	Land use rights RMB
Cost	
At 1 July 2007	660,000
Additions	4,270,370
At 30 June 2008	4,930,370
Additions	14,217,605
At 30 June 2009	**19,147,975**
Accumulated amortisation	
At 1 July 2007	110,750
Charge for the year	121,966
At 30 June 2008	232,716
Charge for the year	246,518
At 30 June 2009	**479,234**
Carrying amount	
At 30 June 2009	**18,668,741**
Less: portion to be released to profit and loss statement in the next year under current assets	**(412,968)**
Amount due after one year	**18,255,773**
At 30 June 2008	4,697,654
Less: portion to be released to profit and loss statement in the next year under current assets	(121,966)
Amount due after one year	4,575,688

(i) Land use rights relate to the following:

Location	Use of property	Land area (sq. metres)	Tenure
Yangxunqiao Industrial Area Shaoxing County Zhejiang Province The People's Republic of China	Production plant	11,195#	50 years (valid till 29 December 2052)
	Production plant	16,989	50 years (valid till 20 May 2059)
	Production plant	17,064	50 years (valid till 29 December 2052)
	Production plant	37,230	50 years (valid till 20 May 2059)
	Production plant	16,397	*
		98,875	

* held in trust by a related party, (Shaoxing County Shenhua Decoration Co., Ltd). The license to own the land is currently under registration process to be approved by the government agency.

(ii) As at the balance sheet date, 11,195 square metres of land amounting to RMB 2,168,086 [Note 16(n)] with net book value of RMB 2,113,745 has been pledged to a financial institution to secure a bank facility.

6 Investment

Available-for-sale financial assets		30 June 2009 RMB	30 June 2008 RMB
- unquoted equity investment Investment fund placed with a financial institution	(a)	**1,575,000**	1,575,000
- unquoted unit trust fund	(b)	**800,000**	-

(a) Unquoted equity investment comprise 0.25% equity interest in a financial institution in the PRC. The financial institution is not similar in nature and size to any quoted entities. There is no active market for the equity interest. As such, it is not practicable to determine with sufficient reliability the fair value of the unquoted equity shares. However, the directors do not anticipate that the carrying amount of the unquoted equity investment will be significantly in excess of its fair value.

(b) Unquoted unit trust fund matures on 21 August 2009. There is no active market for the unit trust fund. As such, it is not practicable to determine with sufficient reliability the fair value of the unquoted equity shares. However, the directors do not anticipate that the carrying amount of the unquoted equity investment will be significantly in excess of its fair value.

7 Inventories

	30 June 2009 RMB	30 June 2008 RMB
At cost:		
Raw materials	**7,779,532**	9,665,265
Work-in-progress	**3,549,145**	10,989,364
Finished goods	**41,479,985**	45,396,961
Goods-in-transit - finished goods	**562,168**	-
	53,370,830	66,051,590
Inventories charged to cost of sales	**430,846,174**	390,137,045

The inventory levels are managed based on confirmed sales orders, projection of the major customers' sales orders, the inventory level of finished products and raw materials and the current trend in yarn prices and the supply and demand of yarn, both in the domestic and international markets.

The ageing of raw materials inventory turnover approximates 6 (2008 - 8) days.

The ageing of work-in-progress inventory turnover approximates 3 (2008 - 9) days.

The ageing of finished goods inventory turnover approximates 31 (2008 - 36) days.

No provision for inventory obsolescence is required.

8 Trade and other receivables

	Note	30 June 2009 RMB	30 June 2008 RMB
Trade receivables		**127,904,416**	71,527,174
Impairment on trade receivables		**(460,009)**	(264,161)
Net trade receivables		**127,444,407**	71,263,013
Other receivables			
VAT receivables		**-**	102,322
Advances to suppliers	(a)	**6,990,381**	2,623,093
Interest-free advances to third parties	(b)	**100,000**	10,280,000
Interest-bearing advances to:			
- a related party (Shaoxing County Shenhua Decoration Co., Ltd)	(c)	**4,034,351**	50,191,041
Amount owing by suppliers of property, plant and equipment		**-**	1,079,540
Prepaid IPO expenses		**-**	450,000
Deposits		**41,844**	314,245
Monies in the bank held on behalf	(d)	**237,050**	2,186,102
Prepayment		**72,788**	-
Freight charges paid on behalf of customers		**692,884**	-
Sundry receivables		**259,828**	12,356
		12,429,126	67,238,699
		139,873,533	138,501,712

Trade receivables are usually due within 90 days and do not bear any effective interest rate. All trade receivables are subject to credit risk exposure. However, the company does not identify specific concentrations of credit risk with regards to trade and other receivables, as the amounts recognised resemble a large number of receivables from various customers. Impairment on trade receivables is made when certain debtors are identified to be irrecoverable. The ageing analysis of the trade receivables approximates 77 (2008 - 48) days.

(a) The advances paid to suppliers which are unsecured, interest-free and repayable on demand represent down-payment for the supply of raw materials.

(b) Advances to third parties which are unsecured, interest-free and repayable on demand comprise:

	30 June 2009 RMB	30 June 2008 RMB
(Shaoxing Wanshida Co., Ltd)	**-**	5,000,000
(Zhejiang Zhanwang Holding Co., Ltd)	**-**	5,000,000
(Zhejiang Yongtong Construction Co., Ltd)	**100,000**	100,000
(Others)	**-**	180,000
	100,000	10,280,000

(c) The interest rate on the unsecured advances charged to the related party is 7.47% (2008 - 7.47%) per annum for advances extended for the purpose of providing working capital.

(d) Monies in the bank held on behalf relate to bank balances held on behalf of the company by a related party, (Shaoxing County Shenhua Hometextile Co., Ltd). The expected date of repayment is December 2009.

8 Trade and other receivables (cont'd)

Movement in impairment on trade receivables are as follows:

	30 June 2009 RMB	30 June 2008 RMB
Balance at beginning of year	**264,161**	565,396
Allowance during the year	**195,848**	-
Allowance no longer required	**-**	(301,235)
Balance at end of year	**460,009**	264,161

The ageing analysis of trade receivables past due and impaired are as follows:

	30 June 2009 RMB	30 June 2008 RMB
Past due over 3 months	**460,009**	264,161

The ageing analysis of trade receivables past due and not impaired are as follows:

	30 June 2009 RMB	30 June 2008 RMB
0 to 1 month	**43,187,304**	50,471,461
Past due over 1 month	**43,218,159**	19,205,412
Past due over 2 months	**41,014,899**	1,586,140
Past due over 3 months	**24,045**	
Past due over 1 year	**-**	-
	127,444,407	71,263,013

Trade and other receivables are denominated in the following currencies:

	30 June 2009 RMB	30 June 2008 RMB
Renminbi	**38,803,860**	76,652,485
United States dollar	**101,069,673**	61,849,227
	139,873,533	138,501,712

9 Note receivables

The note receivables mature on varying dates between 27 November 2009, the earliest date and 27 December 2009, the latest date.

10 Cash and cash equivalents

For the purpose of cash flow statement, the cash and cash equivalents comprise the following:

	30 June 2009 RMB	30 June 2008 RMB
Cash on hand	**10,363**	19,981
Bank balances	**256,206,652**	172,808,617
Fixed deposit	**30,000,000**	16,670,000
	286,217,015	189,498,598
Deposits placed in bank for note payables	**(197,877,820)**	(101,304,960)
	88,339,195	88,193,638

The fixed deposits mature on varying dates between 6 July 2009, the earliest date and 15 July 2009, the latest date and earn interest at an effective interest rate of between 0.36% and 1.35% (2008 - 2.92%) per annum.

Cash and cash equivalents are denominated in the following currencies:

	30 June 2009 RMB	30 June 2008 RMB
Renminbi	**286,210,203**	185,354,459
United States dollar	**6,812**	4,144,139
	286,217,015	189,498,598

11 Capital contribution

	30 June 2009 RMB	30 June 2008 RMB
Balance at beginning and end of year		
- In cash of US$6,260,000 (2008 - US$6,260,000)	**51,756,910**	51,756,910
Shareholder (Talent & Value International Investment Limited)	**51,756,910**	51,756,910

12 Statutory common reserve

	30 June 2009 RMB	30 June 2008 RMB
Balance at beginning of year	**6,288,509**	1,752,293
Mc	**6,710,480**	4,536,216
Balance at end of year	**12,998,989**	6,288,509

According to the current PRC company law, the company is required to transfer between 10% and 50% of its profit after taxation to statutory common reserve until the common reserve balance reaches 50% of the registered capital. For the purpose of calculating the transfer to this reserve, the profit after taxation shall be the amount determined under the PRC accounting standards. The transfer to this reserve must be made before the distribution of dividends to shareholder.

13 Trade and other payables

	Note	30 June 2009 RMB	30 June 2008 RMB
Trade payables		**15,756,104**	11,874,378
Accruals for salaries and related costs		**2,184,812**	1,290,915
		17,940,916	13,165,293
Other payables			
VAT payables		**3,247,159**	-
Interest-bearing advances from			
- a third party, previously a related party (Zhejiang Shenhua Import & Export Co., Ltd)	(a)	**-**	107,639
Interest-free advances from			
- an employee		**-**	146,800
- customers		**3,516,015**	2,684,427
- a third party	(b)	**300,000**	300,000
Amount owing to:			
- supplier of property, plant and equipment		**833,593**	2,115,466
- contractors		**2,003,821**	1,142,470
Sundry payables		**280,974**	194,617
		10,181,562	6,691,419
		28,122,478	19,856,712

The fair value of trade and other payables have not been disclosed as, due to their short duration, management considers the carrying amounts recognised in the balance sheet to be reasonable approximation of their fair values. The ageing analysis of trade payables approximates 12 (2008 - 9) days.

(a) The interest rate on the unsecured advances charged by a third party was 7.47% per annum, commencing from 1 January 2007 for advances extended for the purpose of providing working capital. The amount owing was fully repaid during the financial year.

(b) Advances from a third party which are unsecured, interest-free and repayable on demand comprise:

	30 June 2009 RMB	30 June 2008 RMB
(Shaoxing Shenghui Qinghua Co., Ltd)	**300,000**	300,000

Trade and other payables are denominated in the following currencies:

	30 June 2009 RMB	30 June 2008 RMB
Renminbi	**27,499,991**	18,143,568
United States dollar	**622,487**	1,713,144
	28,122,478	19,856,712

14 Amount owing to a director

The amount owing to a director, (Xia Yao Rong), related to interest-free and unsecured advances were fully repaid during the financial year.

15 Note payables

The note payables mature on varying dates between 5 July 2009 (2008 - 9 July 2008), the earliest date and 10 December 2009 (2008 - 12 December 2008), the latest date.

16 Bank borrowings

	Note	**30 June 2009 RMB**	30 June 2008 RMB
Bank loans: -			
(Industrial And Commercial Bank of China Shaoxing Branch)		**-**	8,500,000
(China Citic Bank Qingfangcheng Branch)		**-**	20,000,000
(Industrial Bank Hangzhou Branch)		**-**	10,000,000
(Bank of Communications Shaoxing Branch)		**30,000,000**	15,000,000
(Shanghai Pudong Development Bank)		**-**	20,000,000
(Zhejiang Shaoxing County Rural Cooperative Bank)		**35,500,000**	20,460,000
(Bank of China Shaoxing Branch)		**40,000,000**	48,700,000
(China Zheshang Bank)		**-**	20,000,000
(China Construction Bank Shaoxing Branch)		**60,000,000**	-
		165,500,000	162,660,000
Comprises:			
Bank loans (unsecured)			
- #1	(a)	**-**	8,500,000
- #2	(b)	**-**	5,460,000
- #3	(c)	**-**	30,000,000
- #4	(d)	**-**	20,000,000
- #5	(e)	**-**	20,000,000
- #6	(f)	**-**	39,700,000
- #7	(g)	**-**	20,000,000
- #8	(h)	**-**	5,000,000
- #9	(i)	**20,000,000**	-
- #10	(j)	**28,000,000**	-
- #11	(k)	**35,500,000**	-
- #12	(l)	**10,000,000**	-
		93,500,000	148,660,000
Bank loans (secured)			
- #13	(m)	**-**	14,000,000
- #14	(n)	**60,000,000**	-
- #15	(o)	**12,000,000**	-
		72,000,000	14,000,000
		165,500,000	162,660,000
Amount repayable:			
Not later than one year	1	**165,500,000**	162,660,000
Later than one year and not later than five years	2-5	**-**	-
Later than five years	5	**-**	-
		165,500,000	162,660,000

16 Bank borrowings (cont'd)

(a) The unsecured bank loan facility #1 of RMB 8,500,000 granted to the company was repaid on 2 December 2008. This bank loan was secured by:

- personal guarantees by a director of the company, Xia Yao Rong and his spouse, Wang Yan Juan ; and
- a corporate guarantee from a third party, Shaoxing Wangjia Textile Co., Ltd, with financial recourse.

Interest was charged at 7.56% per annum.

(b) The unsecured bank loan facilities #2 of RMB 5,460,000 granted to the company comprises a sum of RMB 5,000,000 repaid on 25 September 2008, and another sum of RMB 460,000 repaid on 26 September 2008. These bank loans were secured by:

- personal guarantees by a director of the company, Xia Yao Rong and his spouse, Wang Yan Juan; and
- a corporate guarantee from a supplier, Shaoxing Jinyue Co., Ltd, with financial recourse.

Interests were charged at varying rates between 6.57% and 7.23% per annum.

(c) The unsecured bank loan facilities #3 of RMB 30,000,000 granted to the company comprises a sum of RMB 10,000,000 repaid on 1 September 2008, and another sum of RMB 20,000,000 repaid on 4 August 2008. These bank loans were secured by:

- personal guarantees by a director of the company, Xia Yao Rong and his spouse, Wang Yan Juan; and
- a corporate guarantee from a third party, Zhejiang Zhongda Feedmill Co., Ltd, with financial recourse.

Interests were charged at varying rates between 7.47% and 8.02% per annum.

(d) The unsecured bank loan facility #4 of RMB 20,000,000 granted to the company was repaid on 4 September 2008. This bank loan was secured by:

- a personal guarantee by a director of the company, Xia Yao Rong; and
- corporate guarantees provided by:
  - a related party, Shaoxing County Shenhua Decoration Co., Ltd; and
  - a third party, Zhejiang Zhongda Feedmill Co., Ltd, with financial recourse.

Interest was charged at 6.96% per annum.

(e) The unsecured bank loan facility #5 of RMB 20,000,000 granted to the company was repaid on 10 December 2008. This bank loan was guaranteed by a third party, Zhejiang Zhongda Edible Oils Co., Ltd with financial recourse.

Interest was charged at 8.96% per annum.

(f) The unsecured bank loan facilities #6 of RMB 39,700,000 granted to the company were repaid on varying dates between 23 October 2008 and 10 December 2008. These bank loans were secured by:

- a personal guarantee by a director of the company, Xia Yao Rong; and
- a corporate guarantee from a supplier, Shaoxing Jinyue Co., Ltd with financial recourse.

Interests were charged at varying rates between 6.57% and 7.47% per annum.

16 Bank borrowings (cont'd)

(g) The unsecured bank loan facility #7 of RMB 20,000,000 granted to the company was repaid on 14 November 2008. This bank loan was guaranteed by a third party, Zhejiang Zhongda Feedmill Co., Ltd with financial recourse.

Interest was charged at 8.22% per annum.

(h) The unsecured bank loan facility #8 of RMB 5,000,000 granted to the company was repaid on 2 September 2008. This bank loan was secured by:

- a personal guarantee by a director of the company, Xia Yao Rong; and
- a corporate guarantee from a third party, Zhejiang Zhongda Edible Oils Co., Ltd, with financial recourse.

Interest was charged at 6.57% per annum.

(i) The unsecured bank loan facility #9 of RMB 20,000,000 granted to the company is repayable on or before 29 November 2009. This bank loan is secured by:

- personal guarantees by a director of the company, Xia Yao Rong and his spouse, Wang Yan Juan ; and
- a corporate guarantee from a third party, Zhejiang Zhongda Feedmill Co., Ltd (with financial recourse

Interest is charged at 5.35% per annum.

(j) The unsecured bank loan facilities #10 of RMB 28,000,000 granted to the company are repayable on or before 28 October 2009. These bank loans are secured by:

- personal guarantees by a director of the company, Xia Yao Rong and his spouse, Wang Yan Juan; and
- a corporate guarantee from a third party, Zhejiang Zhongda Edible Oils Co., Ltd, with financial recourse.

Interests are charged at 4.38% per annum.

(k) The unsecured bank loan facilities #11 of RMB 35,500,000 granted to the company are repayable on or before 28 August 2009. These bank loans are secured by:

- a corporate guarantee from a supplier, Shaoxing Jinyue Co., Ltd, with financial recourse.

Interests are charged at 5.83% per annum.

(l) The unsecured bank loan facilities #12 of RMB 10,000,000 granted to the company mature on varying dates between 30 September 2009, the earliest date and 29 November 2009, the latest date. These bank loans are secured by:

- personal guarantees by a director of the company, Xia Yao Rong and his spouse, Wang Yan Juan ; and
- a corporate guarantee from a supplier, Shaoxing Jinyue Co., Ltd, with financial recourse.

Interests are charged at 4.86% per annum.

16 Bank borrowings (cont'd)

(m) The secured bank loan facility #13 of RMB 14,000,000 granted to the company was repaid on 2 September 2008. This bank loan was secured by:

- a personal guarantee by a director of the company, Xia Yao Rong;
- a corporate guarantee from a third party, Zhejiang Zhongda Edible Oils Co., Ltd; and
- a mortgage over plant and machinery to the extent of RMB 60,960,828 [Note5(a)(ii)],with financial recourse.

Interest was charged at 6.57% per annum.

(n) The secured bank loan facility #14 of RMB 60,000,000 granted to the company is repayable on or before 8 March 2010. This bank loan is secured by:

- a corporate guarantee from a third party, Zhejiang Zhongda Feedmill Co., Ltd;
- personal guarantees by a director of the company, Xia Yao Rong and his spouse, Wang Yan Juan; and
- mortgage over:
  - the company's plant and machinery to the extent of RMB 29,557,659 [Note 5(a)(ii)]; and
  - the company's land-use-rights to the extent of RMB 2,168,006 [Note 5(b)(ii)].

Interest is charged at 5.31% per annum.

(o) The secured bank loan facility #15 of RMB 12,000,000 granted to the company is repayable on or before 29 October 2009. This bank loan is secured by:

- personal guarantees by a director of the company, Xia Yao Rong and his spouse, Wang Yan Juan; and
- mortgage over the company's plant and machinery to the extent of RMB 60,960,828 [Note5(a)(ii)].

Interest is charged at 4.37% per annum.

In respect of the financial guarantees provided by a director and his spouse, a related party, third parties and suppliers, there are no financial impact on the financial statements as the interests charged by the said banks are at their prevailing market rates.

The table below analyses the maturity profile of the company's borrowings based on contractual undiscounted cash flows.

	30 June 2009		30 June 2008	
	Carrying amount RMB	**Contractual cash flows RMB**	Carrying amount RMB	Contractual cash flows RMB
Less than 1 year				
Variable interest rate loans	**165,500,000**	**169,159,760**	162,660,000	167,256,618

The company manages the liquidity risk by maintaining sufficient cash to enable them to meet their normal operating commitments and having an adequate amount of committed credit facilities.

17(a) Cost of sales

	30 June 2009 RMB	30 June 2008 RMB
Inventories charged to cost of sales	**430,846,174**	390,137,045
Processing costs	**5,446,604**	5,135,184
Employee benefit expenses	**15,880,000**	10,353,822
Depreciation of property, plant and equipment	**12,851,195**	11,835,201
Amortisation of land-use-rights	**246,518**	121,966
Others	**22,133,410**	39,279,183
	487,403,901	456,862,401

17(b) Other operating income

	30 June 2009 RMB	30 June 2008 RMB
Interest income :		
- banks	**4,497,134**	4,881,581
- third parties	**-**	4,223,250
- related parties	**3,277,555**	6,231,515
Dividend income from from investee [see Note 6(a)]	**225,000**	225,000
Gain on disposal of property, plant and equipment	**64,806**	49,894
Government incentives	**2,152,459**	650,000
Miscellaneous income	**420,865**	433,438
	10,637,819	16,694,678

The effective interest rates per annum are as follows:

- banks	**0.55%**	0.86%
- deposits placed in banks for note payables	**2.44%**	3.56%
- third parties	**-**	9.57%
- related parties	**7.47%**	7.47%

17(c) Distribution expenses

	30 June 2009 RMB	30 June 2008 RMB
Freight charges	**6,332,440**	7,047,434
Others	**1,605,444**	2,787,523
	7,937,884	9,834,957

17(d) Administrative expenses

	30 June 2009 RMB	30 June 2008 RMB
Employee benefit expenses	**2,998,306**	3,422,557
Exchange loss	**2,198,135**	5,642,816
Bank charges	**1,550,983**	1,237,489
Depreciation of property, plant and equipment	**2,068,670**	1,417,996
Consultant fees	**1,629,570**	-
Impairment on trade receivables	**195,848**	-
IPO expenses	**750,000**	-
Others	**2,811,972**	3,763,572
	14,203,484	15,484,430

17(e) Finance expenses

	30 June 2009 RMB	30 June 2008 RMB
Interest:		
- banks	**18,281,060**	16,616,153
-	**-**	18,150
-	**-**	431,625
	18,281,060	17,065,928

The effective interest rates per annum are as follows:

- banks	**5.17%**	7.38%
-	**-**	7.47%
-	**-**	7.47%

17(f) Employee benefit expenses

	30 June 2009 RMB	30 June 2008 RMB
Directors' remuneration		
- salaries and related costs	**261,837**	209,200
- defined contributions	**32,400**	19,986
Key management personnel		
- salaries and related costs	**595,107**	244,241
- defined contributions	**81,115**	34,069
Other than directors and key management personnel		
- salaries and related costs	**17,664,067**	12,548,691
- defined contributions	**243,780**	720,192
	18,878,306	13,776,379

Employee benefit expenses charged to:

Cost of sales	**15,880,000**	10,353,822
Administrative expenses	**2,998,306**	3,422,557
	18,878,306	13,776,379

18 Profit before taxation

	Note	30 June 2009 RMB	30 June 2008 RMB
Profit before taxation has been arrived at after charging:			
Depreciation of property, plant and equipment	5(a)	**14,919,866**	13,253,197
Amortisation on land use rights	5(b)	**246,518**	121,966
Exchange loss		**2,198,135**	5,642,816
Rental on operating leases		**52,788**	-
Impairment on trade receivables		**195,848**	-
Impairment on trade receivables no longer required		**-**	(301,235)

The loss in exchange relates mainly to currency exposure in trading transactions denominated mainly in United States dollar.

19 Taxation

	30 June 2009 RMB	30 June 2008 RMB
Current taxation	**22,368,267**	9,981,358

The tax expense on the results of the financial year varies from the amount of income tax determined by applying the PRC's statutory rate of income tax on company's profit as a result of the following:

	Note		
Profit before taxation		**88,179,081**	51,812,371
Tax at statutory rate of:			
- 12%	(a)	**-**	2,381,800
- 25%	(b)	**22,044,770**	7,599,558
Tax effect on non-taxable income		**323,497**	-
		22,368,267	9,981,358

(a) In 2007, the company was subjected to national income tax at 24% and local income tax at 2.4% as it is located in Zhejiang which is one of the Economic and Technological Development Zones ("ETDZ") in the PRC as designated by the Chinese government. The company obtained tax exemptions where, according to the PRC taxation law, in any year in which the value of exports constituted 70% or above of its total output, a foreign investment enterprise may be granted a 50% reduction of the normal applicable tax rate or at the tax rate of 10%, whichever is higher.

Accordingly, the company has been granted 50% tax reduction on national tax and local tax exemption from July 2007 to December 2007.

(b) From January 2008 onwards, pursuant to the PRC Corporate Income Tax Law, foreign investment enterprises which do not enjoy full tax exemptions, are required to pay an income tax at a rate of 25% of their taxable income.

20 Significant related party transactions

Other than the related party information disclosed elsewhere in the financial statements, the following are significant related party transactions entered into between the company and its related parties at agreed amounts:

	30 June 2009 RMB	30 June 2008 RMB
Interest charged to related parties:		
(Shaoxing County Shenhua Hometextile Co., Ltd)	**-**	168,555
(Shaoxing County Shenhua Decoration Co., Ltd)	**3,277,555**	6,062,960
Interest charged by related parties:		
(Shaoxing County Shenhua Hometextile Co., Ltd)	**-**	18,150
Purchase of property, plant and equipment from:		
(Shaoxing County Shenhua Hometextile Co., Ltd)	**-**	14,617,721
(Shaoxing County Shenhua Decoration Co., Ltd)	**-**	2,936,630
Electricity charged to related parties:		
(Shaoxing County Shenhua Hometextile Co., Ltd)	**-**	616,660
(Shaoxing County Shenhua Decoration Co., Ltd)	**419,554**	596,318

21 Commitments

21.1 Capital commitments

Capital commitments not provided for in the financial statements were as follows:

	30 June 2009 RMB	30 June 2008 RMB
Expenditure contracted for purchase of land [Note 5(b)]	**-**	16,014,000

21 Commitments (cont'd)

21.2 Other commitments

	30 June 2009 RMB	30 June 2008 RMB
Guarantees provided to third parties for granting of bank facilities	**37,000,000**	33,000,000

21.3 Operating lease commitments

At the balance sheet date, the company was committed to making the following lease rental payments under non-cancellable operating leases for shop premise:

	30 June 2009 RMB	30 June 2008 RMB
Not later than one year	**111,173**	-
Later than one year and not later than five years	**444,692**	-
Later than five years	**55,587**	-

The lease on the company's shop premise on which rental is payable will expire on 31 December 2014. The current rental payable on the lease is RMB 9,264 per month.

22 Retirement benefit plans

The eligible employees of the company, who are citizens of the PRC, are members of a state-managed retirement benefit scheme operated by the local government. The company is required to contribute a certain percentage of their payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the company with respect to the retirement benefit scheme is to make the specified contributions.

The total cost charged to the income statement for the years ended 30 June 2009 and 30 June 2008 are RMB 357,295 and RMB 774,247 representing defined contribution national pension plan for the respective years.

23 Financial risk management objectives and policies

The company's financial instruments carried on the balance sheet include cash and cash equivalents, receivables, payables and bank borrowings.

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

Risk management is carried out by the Finance Division with the approval of the Board of Directors. The Finance Division identifies, evaluates and hedges financial risks in close co-operation with the company's operating units. The company does not have any written financial risk management policies and guidelines.

The company does not hold or issue derivative financial instruments for trading purposes or to hedge against fluctuations, if any, in interest rates and foreign exchange.

23 Financial risk management objectives and policies (cont'd)

23.1 Interest rate risk

The company's interest rate risk arises from bank borrowings. The interest rate and terms of repayment of the borrowings are disclosed in Note 16.

Sensitivity analysis

For the variable rate financial liabilities owing for bank borrowings, a change of 50 basis points ("bp") in interest rate at the reporting date would increase/(decrease) profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	30 June 2009		30 June 2008	
Profit or loss	**50bp increase RMB'000**	**50bp decrease RMB'000**	50bp increase RMB'000	50bp decrease RMB'000
Variable rate instruments	**(828)**	**828**	(120)	120

23.2 Foreign currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The business of the company is mainly carried out in the PRC. However, sales are mainly exported to countries outside the PRC. These sales are mainly denominated in United States dollar. Accordingly, the exposure to foreign exchange risk mainly relates to sales made to countries outside the PRC.

The company's currency exposure based on the information provided to key management is as follows:

Currencies	**30 June 2009 RMB '000**	30 June 2008 RMB '000
Financial assets		
Cash and cash equivalents (USD)	**7**	4,144
Trade and other receivables (USD)	**101,070**	61,849
	101,077	65,993
Financial liabilities		
Trade and other payables (USD)	**622**	1,713
Net financial assets/(liabilities)	**100,455**	64,280

A 5% strengthening of the USD against the Renminbi as at 30 June 2009 would have had the following impact on the net profit by the amounts shown below:

30 June 2009	**Gain ('000)**
USD	**5,023**
30 June 2008	**Gain ('000)**
USD	3,214

A 5% weakening of the USD against the above currency as at 30 June 2009 would have the equal but opposite effect on the above currency of the amounts shown above.

Exposures to foreign exchange rates vary during the period depending on the volume of overseas transactions. Nonetheless, the analysis above is considered to be representative of the company's exposure to currency risks.

23 Financial risk management objectives and policies (cont'd)

23.3 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

Management has a credit control policy in place. Credit evaluations are performed on all customers requiring credit over a certain amount. Transactions are conducted with customers with appropriate credit histories. The credit risk and amount outstanding is monitored on an ongoing basis. With this credit evaluation processes, credit control policies and collection procedures in place, the credit risk is mitigated substantially. The company does not require collateral in respect of financial assets.

The company performs ongoing credit evaluation of its customers' financial condition and requires no collateral from its customers. The allowance for doubtful debts is based upon a review of the expected collectibility of all trade and other receivables.

As the company does not hold any collateral, the maximum exposure to credit risk for each class of financial instruments is the carrying amount of that class of financial instruments presented on the balance sheet.

23.4 Liquidity risk

Liquidity or funding risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value.

The deposits pledged with banks for providing note payable facility where the extent of deposits as to the quantum to be called and period covered are at the full discretion of the banks at any time. The company reviews its cash flow regularly to ensure that the company maintains adequate level of liquidity for its operations to meet this commitment to the banks.

At that balance sheet date, the company's trade and other payables and bank borrowings mature in less than one year. In prior year, the company's trade and other payables and bank borrowings mature in less than one year.

23.5 Price risk

Price risk is the risk that the value of a financial instrument will fluctuate due to changes in market prices whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market.

The company does not hold any quoted or marketable financial instrument, hence is not exposed to any movement in market prices.

The company's exposure to price risk is minimal as the supply of materials is not subject to significant price fluctuations.

24 Financial instruments

Fair values The carrying amount of financial assets and liabilities with a maturity of less than one year is assumed to approximate their fair values.

The company does not anticipate that the carrying amounts recorded at balance sheet date would be significantly different from the values that would eventually be received or settled.

25 Critical accounting estimates

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

The company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) 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 completed and selling expenses. These estimates are based on the current market condition and the historical expense of selling products of "similar nature". It could change significantly as a result of competitors in response to severe industry's cycles.

26 Capital management

The company's objectives when managing capital are:

(a) To safeguard the company's ability to continue as a going concern;

(b) To support the company's stability and growth; and

(c) To provide capital for the purpose of strengthening the company's risk management capability.

The company actively and regularly reviews and manages its capital structure to ensure optimal capital structure and shareholder returns, taking into consideration the future capital requirements of the company and capital efficiency, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities. The company currently does not adopt any formal dividend policy.

The gearing ratio is calculated as net debt divided by total capital. Net debt is calculated as borrowings plus trade and other payables, note payables and amount owing to a director less cash and cash equivalents and note receivables.

Total capital is calculated as equity plus net debt.

	30 June 2009	30 June 2008
	RMB	RMB
Net debt	**120,362,663**	205,985,900
Total equity	**189,435,463**	122,874,649
Total capital	**309,798,126**	328,860,549
Gearing ratio	**39%**	63%

The company are in compliance with all externally imposed capital requirements for the financial year ended 30 June 2009.