江晨國際控股有限公司
Jiangchen International Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 08305)

Annual Report 2009

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

This report, for which the directors (the "Directors") of Jiangchen International Holdings Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM (the "GEM Listing Rules") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:-

(i) the information contained in this report is accurate and complete in all material respects and not misleading;

(ii) there are no other matters the omission of which would make any statement in this report misleading; and

(iii) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

As at the date of this report, the board of Directors (the "Board") comprises two executive Directors, namely Mr. Cai Shuiyong and Mr. Cai Shuiping; and three independent non-executive Directors, namely Mr. Lin Anqing, Ms. Lin Peifen and Mr. Liu Jianlin.

CONTENTS

EXECUTIVE DIRECTORS

Mr. Cai Shuiyong *(Chairman)*
Mr. Cai Shuiping

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lin Anqing
Ms. Lin Peifen
Mr. Liu Jianlin

AUDIT COMMITTEE

Mr. Liu Jianlin *(Chairman)*
Mr. Lin Anqing
Ms. Lin Peifen

REMUNERATION COMMITTEE

Mr. Cai Shuiyong *(Chairman)*
Mr. Lin Anqing
Ms. Lin Peifen

NOMINATION COMMITTEE

Mr. Cai Shuiyong *(Chairman)*
Mr. Lin Anqing
Ms. Lin Peifen

COMPLIANCE OFFICER

Mr. Cai Shuiyong

COMPANY SECRETARY

Mr. Kwong Ping Man *CPA, ACIS, ACS*

AUTHORIZED REPRESENTATIVES

Mr. Cai Shuiyong
Mr. Kwong Ping Man

AUDITORS

SHINEWING (HK) CPA Limited
Certified Public Accountants

REGISTERED OFFICE

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Grand Cayman
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Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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HEAD OFFICE IN THE PRC

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CAYMAN ISLANDS SHARE REGISTRAR AND TRANSFER OFFICE

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HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
26th Floor, Tesbury Centre
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PRINCIPAL BANKER

Bank of China, Wannian Branch
Wannian County
Jiangxi Province
the PRC

COMPLIANCE ADVISER

Evolution Watterson Securities Limited

COMPANY WEBSITE

www.jcholding.hk

STOCK CODE

8305

CHAIRMAN'S STATEMENT

I have pleasure in presenting the first annual report of Jiangchen International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") for the financial year ended 31 December 2009.

Despite the unstable economic situation, the Group recorded a slight increase in revenue with an improved gross margin. Nevertheless, following the Company listing on GEM in October 2009, we have incurred additional administrative expenses in respect of compliance matters, which reduced our profit for the year.

The global economy is believed to remain challenging in the coming year. The Group will continue to carry out further development of the Company's business in accordance with the prospectus of the Company dated 29 September 2009 in a prudent approach. The Company will endeavour to improve operational efficiency and strengthen management, aiming to deliver better performance in the coming year.

The Group will also seek to enhance the Company's corporate governance standards in order to improve the corporate governance structure and system so that the Company has effective and sound management for the protection of the interests of all the shareholders.

On behalf of the Board, I would like to take this opportunity to express my sincere gratitude to all shareholders, business partners and clients and to thank all the staff for their hard work and all the Directors for their valuable comments and contributions to the Group.

On behalf of the Board
Cai Shuiyong
Chairman

The PRC, 12 February 2010

BOARD OF DIRECTORS

Executive Directors

Mr. Cai Shuiyong (蔡水泳), aged 43, is an executive Director, the Chairman of the Board and chief executive officer of the Group. He is responsible for the overall strategic planning and direction of the Group. Mr. Cai has over 14 years of experience in the clothing industry. He had been the general manager of Quanzhou Qiaomei Garment Co., Ltd., a domestic enterprise established in the PRC, from 1995 to 2005. Since 2006, he has been a director of Wannianxian Xiefeng Textiles and Garments Co., Ltd. ("Xiefeng Textile"), Jiangxi Province Wannianxing Textiles and Dress Co., Ltd. ("Wannianxing Textile") and Wannian County Xiangyun Fibers and Fabrics Co., Ltd. ("Xiangyun Fiber"). He is also a director of Newshine International Limited ("Newshine"), Sino Prosper (Asia) Limited ("Sino Prosper") and Jiangxi Hong Feng Textile Company Limited ("Hong Feng Textile"). He and Mr. Cai Shuiping are first cousins. He is the spouse of Ms. Cai Shuyan, one of the Group's senior management.

Mr. Cai Shuiping (蔡水平), aged 53, is an executive Director. He is also a director of Newshine and Sino Prosper. Mr. Cai participates in all the major decision making process of the Group. Mr. Cai has over 8 years of experience in the clothing industry. He had been a director of Jinjiang Shuiping Garment Co., Ltd., a domestic enterprise established in the PRC, from 2001 to 2009. He and Mr. Cai Shuiyong are first cousins, and he is the father of Mr. Cai Jiabo, one of the Group's senior management.

Independent Non-Executive Directors

Mr. Lin Anqing (林安慶), aged 43, was appointed as an independent non-executive Director on 15 September 2009. He graduated at Huaqiao University in 1992, majoring in English. Mr. Lin has over 10 years of experience in the banking and financial industry. He had served Quanzhou Haibin City Credit Union and Quanzhou Commercial Bank Joint-Stock Co., Ltd. from 1994 to 2006 and is currently the general manager of Quanzhou Zhongding Guarantee and Investment Co., Ltd.

Ms. Lin Peifen (林佩芬), aged 40, was appointed as an independent non-executive Director on 15 September 2009. She joined the Fujian Wumei Group Co., Ltd. in May 1998 and is currently the deputy general manager of Quanzhou Wumei Hotel, a four-star hotel in Quanzhou, Fujian, the PRC. She has nearly 10 years of experience in the hotel industry.

Mr. Liu Jianlin (劉建林), aged 40, was appointed as an independent non-executive Director on 15 September 2009. He graduated at Fuzhou University in 1993, majoring in packaging engineering. Mr. Liu passed the national examination of registered accountants in December 1996 and is a PRC registered accountant. He is currently a partner and the manager of the audit department of Fujian Da Zheng Accounting Firm.

SENIOR MANAGEMENT

Ms. Cai Shuyan (蔡淑燕), aged 42, joined the Group in May 2006 and is the supervisor of Xiefeng Textile, Wannianxing Textile and Xiangyun Fiber and the responsible officer of Quanzhou Office. Ms. Cai is the spouse of Mr. Cai Shuiyong.

Mr. Cai Jiabo (蔡家搏), aged 27, joined the Group in January 2005 and is a director of Wannianxing Textile, the general manager of Xiangyun Fiber and the marketing director of the Group. He obtained a Professional Certificate in English issued by University of Westminster in association with Management Development Institute of Singapore in 2003. Mr. Cai is the son of Mr. Cai Shuiping.

Mr. Xiao Wei (肖偉), aged 38, joined the Group in January 2007 and is the production director of the Group. Before joining the Group, he had been one of the factory heads of Quanzhou Longquan Garment Co., Ltd., a domestic enterprise established in the PRC, from 2000 to 2006.

Ms. Wang Xiaohua (王小華), aged 38, joined the Group in January 2007 and is the chief financial controller of the Group. Before joining the Group, she had been an accountant of a domestic enterprise established in the PRC, from 1993 to 2006.

BUSINESS REVIEW

The Group is principally engaged in the manufacturing and wholesaling of apparels on an original equipment manufacturing ("OEM") basis. The OEM products of the Group are mainly sold to domestic import and export companies and overseas trading companies for export. The Group is also engaged in the manufacturing and wholesaling of apparels that are designed by the Group to domestic distributors for sales in the PRC. Since March 2008, the Group has established a wholesale outlet in Wannian county, Jiangxi province for marketing and sales of products designed by the Company using "e號倉庫" as its brand name. The products produced by the Group can be broadly categorised into cotton and sweat jacket, sportswear and leisurewear, trousers and children garment.

In June 2009, the Group has acquired a trademark "珍珠泉" from an independent third party.

On 8 October 2009, shares of the Company were listed on GEM. The proceeds from the Company's issue of new shares, after deduction of related issuance expenses, amounted to approximately HK$15.0 million. The Directors plan to utilize the proceeds in accordance with the proposed applications set out in the Company's prospectus dated 29 September 2009 (the "Prospectus") to capture the enlarging purchasing power among the rural areas in the PRC.

On 2 December 2009, Sino Prosper, a wholly-owned subsidiary of the Company, entered into an agreement with Hong Feng International Holdings Limited ("Hong Feng International"), a company owned by Mr. Cai Shuiyong and Mr. Cai Shuiping as to 50% each. Pursuant to the agreement, Sino Prosper has conditionally agreed to acquire 70% of the interest of Hong Feng Textile at a consideration of approximately RMB8.2 million. The acquisition was completed on 7 December 2009, and Hong Feng Textile became a non-wholly owned subsidiary of the Group.

On 23 December 2009, Sino Prosper has conditionally entered into another agreement with Hong Feng International whereby Sino Prosper agreed to purchase from and Hong Feng International agreed to dispose of the remaining 30% of the equity interest in Hong Feng Textile for a consideration of approximately RMB3.5 million. The acquisition has been approved by independent shareholders in an extraordinary general meeting held on 28 January 2010.

FINANCIAL REVIEW

Revenue

The Group's revenue for the year ended 31 December 2009 has slightly increased by 1.2% to approximately RMB146.0 million as compared to that of approximately RMB144.2 million for the year ended 31 December 2008.

Gross profit

The Group achieved a gross profit of approximately RMB20.2 million for the year ended 31 December 2009, representing an increase of approximately 7.4% as compared to that for the year ended 31 December 2008. The gross margin for the year ended 31 December 2009 amounted to 13.8% (2008: 13.1%). The increase in gross margin in 2009 was mainly attributable to the decrease in raw materials costs.

Administrative expenses

The administrative expenses have been increased by approximately 2.6 times from approximately RMB1.1 million for the year ended 31 December 2008 to approximately RMB4.0 million for the year ended 31 December 2009. The increase in administrative expenses was mainly attributable to the additional labour costs in respect of training provided to staff and paid holidays expenses incurred by the Company in compliance with the new employment contract law in the PRC. The Company has also distributed a mid-autumn festival bonus to staff in October 2009.

Profit attributable to owners of the Company

The profit attributable to owners of the Company decreased by approximately 9.8% from approximately RMB17.4 million for the year ended 31 December 2008 to approximately RMB15.7 million for the year ended 31 December 2009.

EMPLOYEES AND REMUNERATION POLICIES

The Group recognises the importance of training to its staff. In addition to on-the-job training, the Group has provided training to its staff to enhance their technical or product knowledge.

As at 31 December 2009, the Group had 1,439 (2008: 1,491) employees, including Directors. Total staff costs for the year, including Directors' remuneration, amounted to approximately RMB24.3 million (2008: approximately RMB19.6 million). The Group's remuneration policies are in line with the prevailing market practice and are determined on the basis of performance and experience of individual employee.

The Group has adopted a share option scheme pursuant to which the Directors may grant options to individuals including Directors, employees or consultant of the Group to acquire shares of the Company. The Directors consider that the share option scheme assists in recruiting and retaining high calibre executives and employees.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its daily operations from internally generated cash flows. As at 31 December 2009, the Group had total assets of approximately RMB70.7 million and net assets of approximately RMB61.5 million. The Group's cash and bank balances as at 31 December 2009 amounted to approximately RMB19.9 million and secured bank borrowings amounted to RMB2.0 million. Taking into account the cash reserves and recurring cash flows from its core business, the Group's financial position is healthy, positioning the Group advantageously to expand its core business and to achieve its business objectives.

PLEDGE ON ASSETS

As at 31 December 2009, the Group secured its bank borrowings by buildings with a carrying value of RMB7.6 million (2008: RMB3.5 million), prepaid lease payments with a carrying value of RMB7.6 million (2008: RMB2.1 million) and machinery with a carrying value of RMB1.1 million (2008: RMB1.2 million).

CONTINGENT LIABILITIES

As at 31 December 2009, the Group did not have any significant contingent liabilities.

FOREIGN EXCHANGE EXPOSURE

The Group's transactions are mainly denominated in United States dollars, Hong Kong dollars and Renminbi. Therefore, the Group is exposed to exchange risk. The Group has not implemented any foreign currency hedging policy at the moment. However, continuous monitoring on the foreign exchange exposure is carried out by the management and the management will consider hedging the foreign exchange exposure if it is significant to the Group.

GEARING RATIO

The gearing ratio of the Group, based on total borrowings to the equity (including all capital and reserves) of the Company, decreased to 3.3% for the year (2008: 5.6%).

CAPITAL STRUCTURE

The capital of the Group comprises only ordinary shares. As at 31 December 2009, the total number of the ordinary shares of the Group in issue was 370,000,000 shares.

SIGNIFICANT INVESTMENT HELD AND MATERIAL ACQUISITIONS AND DISPOSALS

On 2 December 2009 and 23 December 2009, the Company made an announcement to acquire 70% and 30% respectively of the shareholding interest in Hong Feng Textile with a view to secure its main production base and apply the net proceeds to established additional production line and a research and development department in accordance with the future plans as described in the Prospectus. Such acquisition, which constitutes a connected transaction of the Company under rule 20.13 of the GEM Listing Rules, has been approved by independent shareholders on 28 January 2010.

Save as disclosed above, there were no significant investment held or material acquisitions and disposals of subsidiaries for the year ended 31 December 2009.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save as disclosed in the Prospectus, the Group had no other future plans for material investments or capital assets as at 31 December 2009.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

An analysis comparing the business objectives as stated in the Prospectus with the Group's actual business progress for the period from 8 October 2009 (the "Listing Date") to 31 December 2009 is set out below:

	Business objectives for the period from the Listing Date to 31 December 2009 as stated in the Prospectus	Actual business progress up to 31 December 2009
1	Expansion of our new product design capacity and brand building	The Group has completed the feasibility study on setting up a research and development department and will establish the research and development department in the first quarter of 2010. The Group is in the process of negotiating with an independent third party to acquire another trademark. The Group is actively locating suitable research and development staff. The Group has conducted advertising campaigns on promoting its brand in the PRC.
2	Expansion of our production capacity	After the acquisition of Hong Feng Textile, the Group has obtained the land use right proximity to its existing production base by using internal resources. The Group will apply the net proceeds to establish a new production plant in the first half of 2010.
3	Expansion of our sales and distribution channel	The Group has located three properties for the operation of distribution outlets and is now on lease negotiations. The Group has shortlisted three sales and marketing staff and employment contracts will be entered after Chinese New Year.

The business objectives and planned use of proceeds as stated in the Prospectus were based on the best estimation of future market conditions made by the Group at the time of preparing the Prospectus while the proceeds were applied in accordance with the actual development of the market. During the period from the Listing Date to 31 December 2009, the net proceeds from issuance of new shares of the Company had been applied as follows:

	Planned use of proceeds as stated in the Prospectus from the Listing Date to 31 December 2009 HK$'000	Actual use of proceeds from the date of listing to 31 December 2009 HK$'000
Expansion of our new product design capacity and brand building	2,200	100
Expansion of our production capacity	3,300	–
Expansion of our sales and distribution channel	700	–

As the Group has secured the land use right for the establishment of production plant by acquiring the shareholding interest in Hong Feng Textile using its internally generated resources, the Company plans to apply the net proceeds originally assigned for the acquisition of land use right to enhance the construction and renovation of the production plant.

Due to the above reason and certain expansion activities were postponed, the net proceeds applied during the period from the Listing Date to 31 December 2009 are less than expected. The Directors expect that most of the business objectives stated in the Prospectus for the period from the Listing Date to 31 December 2009 will be revisited in the first half of 2010.

All the remaining proceeds as at 31 December 2009 had been placed as interest bearing deposits in banks in Hong Kong.

OUTLOOK

The shares of the Company were listed on GEM on 8 October 2009. As disclosed in the Prospectus, it is the Group's objective to become one of the major budget apparel manufacturers and wholesalers in the PRC by expanding the wholesales business into rural areas in the PRC, which the Directors consider there are promising potentials for the Company's products.

Leveraging on the experience of the Company's management team in the apparel industry, the Company will enhance the product design capacity by establishing a research and development department for new product designs to cater for different target customers. Besides, the research and development department will also conduct research on latest trend and market demand on production materials and review the manufacturing processes with a view to improve productivity, reduce wastage and achieve better quality control.

In accordance with the corporate development strategies as disclosed in the Prospectus, the Group will continue to increase its production capacities by establishing new production facilities with an annual production capacity of approximately 2,500,000 pieces of apparels.

Besides, the Group will expand distribution base and market coverage by establishing twenty outlets in Fujian province, Jiangxi province, Zhejiang province and Guangxi province in the PRC by 31 December 2011 for sales and marketing of the Company's designed products.

The Board has pleasure in submitting its first report and the audited consolidated financial statements for the year ended 31 December 2009.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and the activities of its subsidiaries are set out in note 34 to the consolidated financial statements. There were no significant changes in nature of Group's principal activities during the year.

RESULTS AND APPROPRIATIONS

The Group's profit for the year ended 31 December 2009 and the state of affairs of the Group at that date are set out in the consolidated financial statements on pages 27 to 66.

The Board does not recommend the payment of any dividend for the year ended 31 December 2009.

USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The proceeds from the Company's issue of new shares at the time of its listing on the GEM of Stock Exchange in October 2009, after deduction of related issuance expenses, amounted to approximately HK$15.0 million. These proceeds will be fully applied in accordance with the proposed applications set out in the Prospectus, as follows:

– approximately HK$4.0 million for the expansion of new product design capacity and brand building;

– approximately HK$7.5 million for the expansion of production capacity;

– approximately HK$3.1 million for the expansion of sales and distribution channels; and

– approximately HK$0.4 million as additional working capital of the Group.

All the remaining proceeds as at 31 December 2009 had been placed as interest bearing deposits in banks in Hong Kong.

SUMMARY FINANCIAL INFORMATION

	Year ended 31 December		
	2007	2008	**2009**
	RMB'000	RMB'000	**RMB'000**
Revenue	106,928	144,164	**146,003**
Gross profit	14,686	18,833	**20,165**
Profit before tax	13,492	17,393	**15,698**
Profit attributable to owners of the Company	13,492	17,393	**15,702**
Basic earnings per share (RMB)	0.036	0.047	**0.042**

	As at 31 December		
	2007	2008	**2009**
	RMB'000	RMB'000	**RMB'000**
Non-current assets	8,639	8,116	**17,082**
Current assets	24,083	40,811	**53,641**
Current liabilities	16,617	14,508	**9,268**
Net assets	16,105	34,419	**61,455**

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 80.8% of the total sales for the year and sales to the largest customer included therein amounted to 41.0%. Purchases from the Group's five largest suppliers accounted for 47.3% of the total purchases for the year and purchases from the largest supplier included therein amounted to 15.5%.

None of the Directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any material beneficial interest in the Group's five largest customers and suppliers.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Company and the Group during the year are set out in note 17 to the consolidated financial statements.

SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 26 to the consolidated financial statements.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 33 to the consolidated financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2009, the Company's reserves available for distribution to owners comprising share premium account less accumulated losses, amounted to approximately RMB9.8 million.

DIRECTORS

The Directors during the year and up to the date of this report were:

Executive Directors

Mr. Cai Shuiyong
Mr. Cai Shuiping

Independent Non-Executive Directors

Mr. Lin Anqing
Ms. Lin Peifen
Mr. Liu Jianlin

Each of Mr. Cai Shuiyong and Mr. Cai Shuiping will retire from office as executive Directors at the forthcoming annual general meeting. All of them, being eligible, will offer themselves for re-election pursuant to Article 108(a) of the articles of association.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Biographical information of the Directors and senior management of the Group are set out on pages 5 to 6 of this annual report.

DIRECTORS' SERVICE AGREEMENT

Each of the executive Directors has entered into a service agreement with the Company for an initial term of three years commencing from 8 October 2009 unless terminated by not less than 3 months' notice in writing served by either party on the other.

Each of the independent non-executive Directors namely, Mr. Lin Anqing, Ms. Lin Peifen and Mr. Liu Jianlin has respectively entered into a service agreement with the Company for a term of two years commencing on 8 October 2009 unless terminated by not less than 3 months' notice in writing served by either party on the other.

None of the Directors, including those to be re-elected at the forthcoming annual general meeting, has a service agreement which is not determinable by the Group within one year without the payment of compensation (other than statutory compensation).

EMOLUMENT POLICY

A remuneration committee is set up for reviewing the Group's emolument policy and structure for all remuneration of the directors and senior management of the Group, having regard to the Group's operating results, individual performance and comparable market practices.

The Company has adopted a share option scheme as incentive to directors and eligible employees, details of the scheme are set out in the section headed "Share Option Scheme" below.

REMUNERATION OF DIRECTORS AND FIVE INDIVIDUALS WITH HIGHEST EMOLUMENTS

Details of the emoluments of the directors and five individuals with highest emoluments are set out in notes 14(a) and 14(b) to the consolidated financial statements.

INTERESTS AND SHORT POSITIONS OF THE DIRECTORS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 December 2009, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("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 recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which were required, pursuant to Rule 5.46 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

(i) Long position in shares of the Company

	Number of ordinary shares				
Name of Director	Personal interests	Family interests	Corporate interests	Total	Percentage of issued share capital
Mr. Cai Shuiyong	–	–	259,000,000 [(1)]	259,000,000	70.0%
Mr. Cai Shuiping	–	–	259,000,000 [(1)]	259,000,000	70.0%

Note:

1. These shares are owned by Well Bright Group Limited ("Well Bright") which is owned 50% by Mr. Cai Shuiyong and 50% by Mr. Cai Shuiping. Therefore, each of Mr. Cai Shuiyong and Mr. Cai Shuiping is deemed to be interested in 259,000,000 shares held by Well Bright Group Limited under the SFO.

(ii) Long position in ordinary shares of associated corporation

Name of Director	Name of associated corporation	Capacity/Nature	Number of securities held	Percentage of shareholding
Mr. Cai Shuiyong	Well Bright	Beneficial owner	1	50%
Mr. Cai Shuiping	Well Bright	Beneficial owner	1	50%

Save as disclosed above, as at 31 December 2009, none of the Directors and chief executives of the Company had any interests or short positions in any shares, underlying shares and debenture of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the registered required to be kept by the Company pursuant to Section 352 of the SFO, or which were required, pursuant to Rule 5.46 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2009, so far as is known to the Directors and taking no account of the shares to be issued pursuant to options which may be granted under the share option scheme (as defined below), the following persons (other than the Directors or chief executive of the Company), who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company in accordance with the provision of Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein, were as follows:

Long position in shares of the Company

Name	Capacity	Nature of interest	Number of ordinary shares	Percentage of issued share capital
Well Bright	Beneficial owner	259,000,000	259,000,000	70.0%
Ms. Cai Shuyan	Interest of spouse	259,000,000 (1)	259,000,000	70.0%
Ms. Sun Meige	Interest of spouse	259,000,000 (2)	259,000,000	70.0%

Notes:

1. Mr. Cai Shuiyong beneficially owned 50% of Well Bright and Well Bright held 259,000,000 shares of the Company. Ms. Cai Shuyan is the spouse of Mr. Cai Shuiyong. Therefore, Ms. Cai Shuyan is deemed to be interested in all shares of the Company held by Mr. Cai Shuiyong.
2. Mr. Cai Shuiping beneficially owned 50% of Well Bright and Well Bright held 259,000,000 shares of the Company. Ms. Sun Meige is the spouse of Mr. Cai Shuiping. Therefore, Ms. Sun Meige is deemed to be interest in all shares of the Company held by Mr. Cai Shuiping.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 32 to the consolidated financial statements, no Director had a material interest in, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from the details as disclosed under the heading "Interests and Short Positions of the Directors in Shares, Underlying Shares and Debentures of the Company and its Associated Corporations" above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company and any of its subsidiaries a party to any arrangement to enable the Directors, or their respective spouse or children under 18 years of age, to acquire such rights in any other body corporate.

CONNECTED TRANSACTIONS

On 2 December 2009, Sino Prosper, a wholly-owned subsidiary of the Company, entered into an agreement with Hong Feng International, a company owned by Mr. Cai Shuiyong and Mr. Cai Shuiping as to 50% each. Pursuant to the agreement, Sino Prosper has conditionally agreed to acquire 70% of the interest of Hong Feng Textile at a consideration of approximately RMB8.2 million. The acquisition was completed on 7 December 2009, and Hong Feng Textile became a non-wholly owned subsidiary of the Group.

On 23 December 2009, Sino Prosper has conditionally entered into another agreement with Hong Feng International whereby Sino Prosper agreed to purchase from and Hong Feng International agreed to dispose of the remaining 30% of the equity interest in Hong Feng Textile for a consideration of approximately RMB3.5 million. The acquisition has been approved by independent shareholders in an extraordinary general meeting held on 28 January 2010.

Save as disclosed above, the related party transactions are set out in note 32 to the consolidated financial statements. All the related party transactions did not constitute connected transactions or continuing connected transactions of the Company under Chapter 20 of the GEM Listing Rules which are required to comply with any of the reporting, announcement or independent shareholders' approval requirements under the GEM Listing Rules.

PURCHASE, SALE AND REDEMPTION OF THE SHARES

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

DIRECTORS' INTEREST IN A COMPETING BUSINESS

During the year, save as disclosed in the Prospectus, the Directors were not aware of any business or interest of the Directors or any substantial shareholder (as defined under the GEM Listing Rules) of the Company and their respective associates that had competed or might compete with the business of the Group and any other conflicts of interests which any such person had or might have with the Group.

BANK BORROWINGS

Particulars of bank borrowings of the Group as at 31 December 2009 are set out in note 25 to the consolidated financial statements.

RETIREMENT SCHEMES

Particulars of the retirement schemes of the Group are set out in note 27 to the consolidated financial statements.

CONFIRMATION OF INDEPENDENCE

The Company has received from each of the independent non-executive Directors an annual confirmation of independence pursuant to Rule 5.09 of the GEM Listing Rules and considers all the independent non-executive Directors to be independent parties. The Company considers all of the independent non-executive Directors are independent.

CODE OF CONDUCT REGARDING DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard set out in Rule 5.46 of the GEM Listing Rules — Model Code for Securities Transactions by Directors of Listed Companies. Specific enquiry has been made of all the Directors and the Directors have confirmed that they had complied with such code of conduct from the date of listing of the Company's shares on the Stock Exchange up to 31 December 2009.

SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Since the Scheme has become effective on 8 October 2009, no share options were granted, exercised or cancelled by the Company under the Scheme during the period under review and there were no outstanding share options under the Scheme as at 31 December 2009.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

PRE-EMPTIVE RIGHTS

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

CORPORATE GOVERNANCE

The Board considered that the Company had complied with the code provisions set out in the Code of Corporate Governance Practices (the "Code") as stipulated in Appendix 15 to the GEM Listing Rules during the year, except for the deviations from code provision A.2.1.

The Group's compliance with the code provisions is set out in the Corporate Governance Report from page 21 to page 24 of this annual report.

EVENTS AFTER THE REPORTING PERIOD

Details of the significant events after the reporting period of the Group are set out in note 35 to the consolidated financial statements.

COMPLIANCE ADVISOR'S INTEREST

Pursuant to the compliance advisor's agreement entered into between the Company and Evolution Watterson Securities Limited ("Evolution Watterson"), Evolution Watterson has been appointed as the compliance advisor of the Company for the period commencing from the Listing Date and ending on the date on which the Company complies with Rules 18.03 of the GEM Listing Rules in respect of the Company's financial results for the second full financial year commencing after the Listing Date in accordance with the GEM Listing Rules subject to the terms and conditions of the compliance advisor's agreement.

As notified by Evolution Watterson, none of Evolution Watterson, its directors, employees or associates had any interests in the securities of the Company or any member of the Group or any right to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group as at 31 December 2009.

AUDITORS

SHINEWING (HK) CPA Limited has acted as auditors of the Company for the year ended 31 December 2009.

SHINEWING (HK) CPA Limited shall retire in the forthcoming annual general meeting and, being eligible, will offer themselves for reappointment. A resolution for the re-appointment of SHINEWING (HK) CPA Limited as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board
Cai Shuiyong
Chairman

The PRC, 12 February 2010

CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining high standards of corporate governance to protect the interests of the shareholders of the Company. Except for the deviations from code A.2.1, the Company had complied with most of the code provisions set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 15 of the GEM Listing Rules since its shares listed on GEM of the Stock Exchange on 8 October 2009. This report describes the corporate governance standards and practices used by the Company to direct and manage its business affairs.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by the Directors on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules since its shares listed on GEM of the Stock Exchange on 8 October 2009. Having made specific enquiry with all Directors, the Company confirmed that all Directors have complied with the code of conduct and the required standard of dealings concerning securities transactions by the Directors from the Listing Date and up to 31 December 2009.

BOARD OF DIRECTORS

As at 31 December 2009, the Board comprises two executive Directors and three independent non-executive Directors as follows:

Executive Directors

Mr. Cai Shuiyong
Mr. Cai Shuiping

Independent non-executive Directors

Mr. Lin Anqing
Ms. Lin Peifan
Mr. Liu Jianlin

The composition of the Board is well balanced with each Director having sound industry knowledge, extensive corporate and strategic planning experience and/or expertise relevant to the business of the Group. The biographical details of the Directors and the relationship among the members of the Board are set out in the "Biographical Information of Directors and Senior Management" on pages 5 to 6 of this annual report.

The Board is responsible for the overall strategic development of the Group. It also monitors the financial performance and internal control of the Group's business operations. Executive Directors are responsible for running the Group and executing the strategies adopted by the Board. The Board delegates day-to-day activities to the management with department heads responsible for different aspects of the business. Management is required to present an annual budget and any proposal for major investments and changes in business strategies for the Board's approval. The non-executive Directors serve the relevant function of bringing independent judgment on the development, performance and risk management of the Group through their contributions in board meetings. They are also serving on Audit Committee, Remuneration Committee and Nomination Committee.

During the year, the Board complies at all times with the requirement of the GEM Listing Rules relating to the appointment of at least 3 independent non-executive directors and at least one of them has appropriate professional qualifications or accounting or related financial management expertise. The Company has received from each independent non-executive Director an annual confirmation of his independence pursuant to Rule 5.09 of the GEM Listing Rules and the Company considers all the independent non-executive Directors to be independent.

The Board normally has four scheduled meetings a year at quarterly interval and meets as and when required to discuss the overall business, development strategy, operations and financial reporting of the Company. Since the Company's shares listed on GEM of the Stock Exchange on 8 October 2009 and up to 31 December 2009, the Board held 3 meetings. The Directors can attend meetings in persons or through other means of electronic communication in accordance with the Company's articles of association. Notice of at least 14 days is given of a regular Board meeting to give all Directors an opportunity to attend. The following table shows the attendance of individual Directors at the meetings held during the year:

Mr. Cai Shuiyong	3/3
Mr. Cai Shuiping	3/3
Mr. Lin Anqing	3/3
Ms. Lin Peifan	3/3
Mr. Liu Jianlin	3/3

Board papers are circulated at least 3 days before the Board meetings to enable the Directors to make informed decisions on matters to be raised at the Board meetings.

In addition, the Company has maintained a procedure for the Directors to seek independent professional advice, in appropriate circumstances, at the Company's expense in discharging their duties to the Company. Moreover, the Company Secretary prepares minutes and keeps records of matters discussed and decisions resolved at all Board meetings. The Company Secretary also keeps the minutes, which are open for inspection at any reasonable time on reasonable notice by any Director.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Pursuant to the code provision A.2.1, 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. Cai Shuiyong is appointed as the chairman and chief executive officer of the Company who is responsible for managing the Board and the Group's business. The Board considers that Mr. Cai has in-depth knowledge in the Group's business and can make appropriate decisions promptly and efficiently. Nevertheless, the Board will continue to review the effectiveness of the Group's corporate governance structure to assess whether the separation of the positions of chairman and chief executive officer of the Company is necessary.

APPOINTMENT, RE-ELECTION AND REMOVAL

Under the Code Provision A.4.1, all the non-executive directors should be appointed for a specific term, subject to re-election. At present, each of Mr. Lin Anqing, Ms. Lin Peifan, Mr. Liu Jianlin, the independent non-executive Directors has been appointed for a specific term of two years.

According to the Company's articles of association, one-third of the Directors are required to retire from office at each annual general meeting, provided that every Director shall be subject to retirement by rotation at least once in every three years. The Directors to retire every year shall be those appointed by the Board during the year and those who have been longest in office since their last re-election.

NOMINATION OF DIRECTORS

According to recommended best practices A.4.4 of the Code, the listed issuers are recommended to set up a nomination committee with a majority of the members thereof being independent non-executive directors.

The Company established a nomination committee in September 2009 with written terms of reference in compliance with the Code. The principal duties of the nomination committee are to identify and nominate suitable candidates for the appointment of the Directors and make recommendations to the Board on succession planning for the Directors. The nomination committee comprises one executive Director, namely Mr. Cai Shuiyong and two independent non-executive Directors namely Mr. Lin Anqing and Ms. Lin Peifen. Mr. Cai Shuiyong has been appointed as the chairman of the nomination committee.

No meeting has been held by the nomination committee from the Company's shares listed on GEM of the Stock Exchange on 8 October 2009 to 31 December 2009.

REMUNERATION COMMITTEE

The Company established a remuneration committee in September 2009 with written terms of reference in compliance with the Code. The primary duties of the remuneration committee are, amongst other things, to review and determine the terms of remuneration packages, bonuses and other compensation payable to our Directors and senior management and to make recommendation to our Board on our Group's policy and structure for all remuneration of our Directors and senior management. The remuneration committee comprises one executive Director, namely, Mr. Cai Shuiyong and two independent non-executive Directors, namely Mr. Lin Anqing and Ms. Lin Peifen. Mr. Cai Shuiyong has been appointed as the chairman of the remuneration committee.

No meeting has been held by the remuneration committee from the Company's shares listed on GEM of the Stock Exchange on 8 October 2009 to 31 December 2009.

AUDITORS' REMUNERATION

For the year ended 31 December 2009, the remuneration paid to the auditors, SHINEWING (HK) CPA Limited in respect of audit services amounted to HK$550,000 (2008: HK$nil) and non-audit service assignment amounted to HK$1,500,000 (2008: HK$nil).

AUDIT COMMITTEE

The Company established an audit committee in September 2009 with written terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules. The primary duties of the audit committee are, among other things, to review and supervise the financial reporting process and internal control system of our Group. The audit committee has three members comprising our three independent non-executive Directors, namely Mr. Liu Jianlin, Mr. Lin Anqing and Ms. Lin Peifen. Mr. Liu Jianlin has been appointed as the chairman of the audit committee.

A meeting was held in the year under review and all members have attended the meeting.

The audit committee reviews the quarterly, interim and annual reports before submission to the Board. The audit committee focuses not only on the impact of the changes in accounting policies and practices but also on the compliance with accounting standards, the GEM Listing Rules and the legal requirements in the review of the Company's quarterly, interim and annual reports.

INVESTOR RELATIONS AND COMMUNICATION WITH SHAREHOLDERS

The Company has established a range of communication channels between itself and its shareholders, and investors. These include the publication of annual, interim and quarterly reports, notices, announcements and circulars, the Company's website at www.jcholding.hk and meetings with investors and analysts.

INTERNAL CONTROL

The Board recognises the importance of maintaining an adequate and effective internal control system to safeguard the Company's assets against unauthorised use of disposition, and to protect the interests of shareholders of the Company. Senior management assumes the overall responsibility for reviewing the adequacy and integrity of the Group's internal control system with the guidance of the executive Directors.

During the year, the Board has discussed and reviewed the internal control system and the relevant proposal made by senior management in order to ensure an adequate and effective system of internal control.

FINANCIAL REPORTING

The Directors are responsible for the preparation of the financial statements, which give a true and fair view of the financial position of the Group. The auditors are responsible to form an independent opinion based on the audit, on the financial statements prepared by the Directors and report the opinion solely to the shareholders of the Company.

信永中和
ShineWing

SHINEWING (HK) CPA Limited
16/F., United Centre
95 Queensway, Hong Kong

TO THE SHAREHOLDERS OF
JIANGCHEN INTERNATIONAL HOLDINGS LIMITED
江晨國際控股有限公司
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Jiangchen International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 27 to 66, which comprise the consolidated statement of financial position as at 31 December 2009, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated 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 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 Group as at 31 December 2009 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

SHINEWING (HK) CPA Limited
Certified Public Accountants
Lo Wa Kei
Practising Certificate Number: P03427

Hong Kong
12 February 2010

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
Turnover	8	**146,003**	144,164
Cost of sales		**(125,838)**	(125,331)
Gross profit		**20,165**	18,833
Other operating income	10	**416**	56
Selling and distribution costs		**(666)**	(359)
Administrative expenses		**(3,971)**	(1,059)
Finance costs	11	**(246)**	(78)
Profit before tax	12	**15,698**	17,393
Income tax expense	13	**–**	–
Profit and total comprehensive income for the year		**15,698**	17,393
Profit and total comprehensive income attributable to:			
Owners of the Company		**15,702**	17,393
Minority interests		**(4)**	–
		15,698	17,393
Earnings per share (RMB):			
Basic	15	**0.042**	0.047

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2009

	Notes	**2009**	2008
		RMB'000	RMB'000
Non-current assets			
Property, plant and equipment	17	**9,678**	6,081
Prepaid lease payments	18	**7,404**	2,035
		17,082	8,116
Current assets			
Inventories	19	**7,514**	14,220
Trade and other receivables	20	**26,089**	21,591
Prepaid lease payments	18	**161**	44
Amounts due from related parties	21	**–**	1,045
Bank balances and cash	22	**19,877**	3,911
		53,641	40,811
Current liabilities			
Trade and other payables	23	**3,892**	12,480
Amounts due to controlling shareholders	24	**2,983**	–
Amounts due to related parties	21	**393**	106
Secured bank borrowings	25	**2,000**	1,922
		9,268	14,508
Net current assets		**44,373**	26,303
Net assets		**61,455**	34,419
Capital and reserves			
Share capital	26	**3,256**	24,135
Reserves		**56,325**	10,284
Equity attributable to owners of the Company		**59,581**	34,419
Minority interests		**1,874**	–
Total equity		**61,455**	34,419

The consolidated financial statements on pages 27 to 66 were approved and authorised for issue by the board of directors on 12 February 2010 and are signed on its behalf by:

Cai Shuiyong	**Cai Shuiping**
Director	*Director*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2009

	Attributable to owners of the Company								
	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Statutory reserves RMB'000 (Note a)	Other reserves RMB'000 (Note b)	(Accumulated losses)/ retained earnings RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
At 1 January 2008	23,215	–	9	–	–	(7,119)	16,105	–	16,105
Capital injection	920	–	1	–	–	–	921	–	921
Total comprehensive income for the year	–	–	–	–	–	17,393	17,393	–	17,393
Appropriation to reserves	–	–	–	1,027	–	(1,027)	–	–	–
At 31 December 2008	24,135	–	10	1,027	–	9,247	34,419	–	34,419
Total comprehensive income for the year	–	–	–	–	–	15,702	15,702	(4)	15,698
Elimination of share capital on group reorganisation	(24,135)	–	–	–	24,135	–	–	–	–
Shares issued on group reorganisation	326	–	–	–	(326)	–	–	–	–
Shares issued under placing	651	19,082	–	–	–	–	19,733	–	19,733
Shares issued by capitalisation	2,279	(2,279)	–	–	–	–	–	–	–
Shares issuing expenses	–	(6,161)	–	–	–	–	(6,161)	–	(6,161)
Merger reserve arising from common control combination	–	–	–	–	(4,112)	–	(4,112)	1,878	(2,234)
Appropriation to reserves	–	–	–	1,634	–	(1,634)	–	–	–
At 31 December 2009	3,256	10,642	10	2,661	19,697	23,315	59,581	1,874	61,455

Notes:

a. Statutory reserves

Statutory reserves were established in accordance with the relevant People's Republic of China ("PRC") rules and regulations for the companies comprising the Group which are incorporated in the PRC. Appropriations to the reserves were approved by the respective directors.

b. Other reserves

Other reserves comprise the following:

– Merger reserve arising from common control combination for entity acquired in December 2009.

– Surplus from the share capital of the subsidiaries, acquired pursuant to the group reorganisation over acquisition consideration.

– Difference between the nominal value of the shares of a subsidiary, acquired pursuant to the group reorganisation, over the nominal value of the Company's shares issued in exchange thereof.

c. Profit attributable to owners of the Company

During the year, the consolidated profit attributable to owners of the Company includes a loss of approximately RMB838,000 which has been dealt with in the financial statements of the Company. There was no profit or loss dealt with in the financial statements of the Company for the year ended 31 December 2008 as the Company was incorporated on 10 June 2009.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2009

	2009 RMB'000	2008 RMB'000
OPERATING ACTIVITIES		
Profit before tax	**15,698**	17,393
Adjustments for:		
Amortisation of prepaid lease payments	**132**	44
Depreciation of property, plant and equipment	**713**	479
Finance costs	**246**	78
Bank interest income	**(23)**	(56)
Written off of long outstanding payables	**(393)**	–
OPERATING CASH FLOWS BEFORE MOVEMENTS IN WORKING CAPITAL	**16,373**	17,938
Decrease (increase) in inventories	**6,706**	(2,637)
Increase in trade and other receivables	**(4,498)**	(10,457)
(Decrease) increase in trade and other payables	**(8,212)**	3,444
NET CASH FROM OPERATING ACTIVITIES	**10,369**	8,288
INVESTING ACTIVITIES		
Interests received	**23**	56
Repayments from (advances to) related parties	**1,045**	(30)
Consideration paid for the acquisition of a subsidiary under common control, net of bank balances and cash acquired of RMB67,000	**(8,184)**	–
Purchase of property, plant and equipment	**(629)**	–
NET CASH (USED IN) FROM INVESTING ACTIVITIES	**(7,745)**	26
FINANCING ACTIVITIES		
Interest paid	**(229)**	(78)
Repayments to related parties	**–**	(2,132)
Repayments to controlling shareholders	**(79)**	(5,343)
Proceeds from issue of share capital, net of issuing expenses	**13,572**	–
New bank borrowings raised	**15,301**	7,851
Repayment of bank borrowings	**(15,223)**	(5,929)
Capital injections	**–**	921
NET CASH FROM (USED IN) FINANCING ACTIVITIES	**13,342**	(4,710)
NET INCREASE IN CASH AND CASH EQUIVALENT	**15,966**	3,604
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**3,911**	307
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, represented by bank balances and cash	**19,877**	3,911

1. GENERAL INFORMATION

Jiangchen International Holdings Limited (the "Company") was incorporated in the Cayman Islands as an exempted company with limited liability on 10 June 2009 and its shares have been listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") with effective from 8 October 2009. The address of its registered office and principal place of business are disclosed in the section of "Corporate Information" in the annual report. The Company and its subsidiaries (collectively referred to as the "Group") are principally engaged in the manufacturing and wholesaling of apparels to domestic import and export companies and overseas trading companies and investment holding.

Pursuant to the reorganisation (the "Reorganisation") of the Group, the Company acquired the equity interests of entities under common control and become the holding company of the subsidiaries now comprising the Group. Details of the Reorganisation are set out in the prospectus of the Company dated 29 September 2009 (the "Prospectus").

The directors consider that Well Bright Group Limited, a company incorporated in the British Virgin Islands ("BVI") with limited liability, is the Company's parent company and Mr. Cai Shuiyong ("Mr. Cai SY") and Mr. Cai Shuiping ("Mr. Cai SP") are the ultimate controlling shareholders.

On 2 December 2009, Sino Prosper (Asia) Limited ("Sino Prosper"), a wholly-owned subsidiary of the Company, entered into an agreement with Hong Feng International Holdings Limited ("Hong Feng International"), a company owned by Mr. Cai SY and Mr. Cai SP as to 50% each. Pursuant to the agreement, Sino Prosper has conditionally agreed to acquire 70% of the interest of Jiangxi Hong Feng Textile Company Limited ("Hong Feng Textile") at a consideration of approximately Renminbi ("RMB") 8.2 million. The acquisition was completed on 7 December 2009, and Hong Feng Textile became a non-wholly owned subsidiary of the Group.

The above acquisition was accounted for using merger accounting under common control combination. The Company and Hong Feng Textile are both under the control of Mr. Cai SY and Mr. Cai SP, and thus regarded as different entities under common control. These financial statements have been prepared using the principles of merger accounting as prescribed in Hong Kong Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), assuming that the current structure of the Group has been in existence since the date the Company and Hong Feng Textile first came under the control of Mr. Cai SY and Mr. Cai SP, when Hong Feng International acquired 100% equity interest in Hong Feng Textile in March 2009.

These consolidated financial statements are presented in thousands of units of RMB which is the same as the functional currency of the Group.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In current year, the Group has applied, for the first time, all the revised HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations ("INT(s)") (hereinafter collectively referred to as "new HKFRSs") issued by the HKICPA which are effective for the Group's financial year beginning on 1 January 2009.

The Group has not early applied the following new and revised standards, amendments or INTs that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs May 2008[1]
HKFRSs (Amendments)	Improvements to HKFRSs April 2009[2]
HKAS 24 (Revised)	Related Party Disclosures[3]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[4]
HKAS 32 (Amendment)	Classification of Right Issues[5]
HKAS 39 (Amendment)	Eligible Hedged Items[4]
HKFRS 1 (Revised)	First-time Adoption of Hong Kong Financial Reporting Standards[4]
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters[6]
HKFRS 2 (Amendment)	Group Cash-Settled Share-based Payment Transactions[6]
HKFRS 3 (Revised)	Business Combinations[4]
HKFRS 9	Financial Instruments[7]
HK(IFRIC)-INT 14 (Amendment)	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[3]
HK(IFRIC)-INT 17	Distributions of Non-cash Assets to Owners[4]
HK(IFRIC)-INT 19	Extinguishing Financial Liabilities with Equity Instruments[8]

1 Amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009.
2 Effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate.
3 Effective for annual periods beginning on or after 1 January 2011.
4 Effective for annual periods beginning on or after 1 July 2009.
5 Effective for annual periods beginning on or after 1 February 2010.
6 Effective for annual periods beginning on or after 1 January 2010.
7 Effective for annual periods beginning on or after 1 January 2013.
8 Effective for annual periods beginning on or after 1 July 2010.

The application of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

In addition, as part of Improvements to HKFRSs (2009), HKAS 17 Leases has been amended in relation to the classification of leasehold land. The amendments will be effective from 1 January 2010, with earlier application permitted. Before the amendments to HKAS 17, leasees were required to classify leasehold land as operating leases and presented as prepaid lease payments in the consolidated statement of financial position. The amendments have removed such a requirement. Instead, the amendments require the classification of leasehold land to be based on the general principles set out in HKAS 17, that are based on the extent to which risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee. The application of the amendments to HKAS 17 might affect the classification and measurement of the Group's leasehold land at revalued amount.

The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis.

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of consolidation (Continued)

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Business combinations under common control

Business combinations under common control are accounted for using merger accounting. In applying merger accounting, the consolidated financial statements incorporate the financial statements items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling parties' perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated statement of comprehensive income includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the consolidated financial statements are presented as if the entities or businesses had been combined at the end of the previous reporting period or when they first came under common control, whichever is shorter.

Investment in a subsidiary

Investment in a subsidiary is included in the Company's statement of financial position at cost less any identified impairment loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods in the normal course of business, net of discounts and sales related taxes.

Revenue from sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that assets' net carrying amount on initial recognition.

Property, plant and equipment

Property, plant and equipment, including buildings held for use in the production or for administrative purposes (other than construction in progress) are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment (other than construction in progress) over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purpose. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the profit or loss in the period in which the item is derecognised.

Prepaid lease payments

Prepaid lease payments are up-front payments to acquire leasehold land interests. The prepaid lease payments are stated at cost less accumulated amortisation and accumulated impairment losses, amortisation is charged to the profit or loss over the period of the land use right using the straight-line method.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment losses

At the end of the reporting period, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the leasee. All other leases are classified as operating leases.

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant leases.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value is included in profit or loss for the period.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. RMB) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (the translations reserve).

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Borrowing costs

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

Retirement benefit costs

Payments to state-managed retirement benefit schemes for PRC companies in the Group, and Mandatory Provident Fund Scheme for other companies in the Group are charged as an expense when employees have rendered services entitling them to the contributions.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is recognised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in to profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories

Inventories are stated at the lower of cost and net recognised value. Cost is determined using the weighted average method.

Financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Group's financial assets are classified as loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis.

Loan and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, amounts due from related parties and bank balances and cash) are carried at amortised cost, using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Impairment loss on financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For all financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial assets, such as trade and other receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period ranging from 90 to 180 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, and amounts due from related parties, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade or other receivable or amount due from a related party is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The Group's financial liabilities are generally classified as other financial liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

Other financial liabilities

Other financial liabilities including trade and other payables, amounts due to controlling shareholders and related parties and secured bank borrowings are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in other comprehensive income is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

4. ADJUSTMENTS FOR COMMON CONTROL COMBINATION

As described in Note 1, the Group undertook a common control combination in respect of the entity acquired in December 2009. The following demonstrates the effect of adopting merger accounting for common control combination on the consolidated statement of financial position.

Consolidated statement of financial position as at 31 December 2009:

	Group (before adopting merger accounting) RMB'000	Hong Feng Textile RMB'000	Adjustments RMB'000 (Note a)	Adjustments RMB'000 (Note b)	Group (after adopting merger accounting) RMB'000
Original investment in combining entity	8,251	–	(8,251)	–	–
Other assets – net	55,546	5,909	–	–	61,455
Net assets	63,797	5,909	(8,251)	–	61,455
Share capital	3,256	6,258	(6,258)	–	3,256
Share premium	10,642	–	–	–	10,642
Capital reserve	10	–	–	–	10
Statutory reserve	2,661	–	–	–	2,661
Other reserves	23,809	–	(4,112)	–	19,697
Retained earnings/ (accumulated losses)	23,419	(349)	241	4	23,315
Minority interests	–	–	1,878	(4)	1,874
	63,797	5,909	(8,251)	–	61,455

Notes:

a. The adjustment represents the elimination of the share capital and pre-acquisition reserve of Hong Feng Textile under common control (Note 1) against the investment cost. The difference has been recorded as other reserves in the consolidated financial statements. Adjustments are also made to minority interests as a result of the combination.

b. The adjustment represents the sharing of results by the minority interests of Hong Feng Textile under common control.

4. ADJUSTMENTS FOR COMMON CONTROL COMBINATION (CONTINUED)

The effects of adopting merger accounting for common control combination on the current consolidated statement of comprehensive income by line items are as follows:

	2009 RMB'000
Increase in cost of sales	213
Decrease in administrative expenses	105
Decrease in profit and total comprehensive income for the year	108
Attributable to:	
Owners of the Company	104
Minority interests	4
	108

The effect of adopting merger accounting for common control combination on the Group's basic earnings per share would be a decrease of RMB0.0003 for the year.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, the directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The following are the key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

(a) Depreciation of property, plant and equipment

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives, after taking into account their estimated residual values. The determination of the useful lives and residual values involve management's estimation. The Group assesses annually the residual value and the useful life of the property, plant and equipment and if the expectation differs from the original estimate, such a difference may impact the depreciation in the year and the estimate will be changed in the future period.

(b) Estimated impairment of trade receivables

The Group performs ongoing credit evaluations of its customers and adjusts credit limits based on payment history and the customer's current credit-worthiness, as determined by the review of their current credit information. The Group continuously monitors collections and payments from its customers and maintains a provision for estimated credit losses based upon its historical experience. Credit losses have historically been within the Group's expectations and the Group will continue to monitor the collections from customers and maintain an appropriate level of estimated credit losses. During the year, no impairment loss was recognised (2008: Nil).

(c) Estimated impairment of property, plant and equipment

The management of the Group determines whether the property, plant and equipment is impaired, at least on an annual basis. The impairment loss for property, plant and equipment are recognised for the amounts by which the carrying amounts exceed their recoverable amounts, in accordance with the Group's accounting policy. The recoverable amounts of property, plant and equipment have been determined based on value-in-use calculations. These calculations require the use of estimates such as the future revenue and discount rates. During the year, no impairment loss was recognised (2008: Nil).

(d) Estimated impairment of prepaid lease payments

The recoverable amounts of prepaid lease payments are assessed annually by independent qualified valuer. In determining fair values, the valuer has based on valuation method which involves certain estimates. In relying on valuation report, the management has exercised their judgement and is satisfied that the method of valuation is reflective of the current market conditions. During the year, no impairment loss was recognised (2008: Nil).

(e) Estimated impairment of inventories

The management of the Group reviews an aging analysis at the end of each reporting period, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for sale. The management estimates the net realisable value for finished goods based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at the end of each reporting period and makes allowance for obsolete items. During the year, no impairment loss was recognised (2008: Nil).

6. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of debt, which includes secured bank borrowings disclosed in Note 25 and equity attributable to owners of the Company, comprising issued share capital, reserves and retained earnings.

The directors of the Company review the capital structure regularly. As part of this review, the directors of the Company consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors of the Company, the Group will balance its overall capital structure through the raising of new debts or the repayment of existing debts. The Group's overall strategy remains unchanged from prior year.

7. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2009 **RMB'000**	2008 RMB'000
Loan and receivables (including bank balances and cash)	**45,668**	23,563
Financial liabilities at amortised cost	**8,793**	14,302

(b) Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, amounts due from related parties, bank balances and cash, trade and other payables, amounts due to controlling shareholders and related parties, and secured bank borrowings. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(i) Currency risk

Certain subsidiaries of the Company have foreign currency sales, which exposes the Group to foreign currency risk. The Group does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Certain trade receivables, bank balances and bank borrowings of the Group are denominated in currencies other than RMB.

7. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management objectives and policies (Continued)

(i) Currency risk (Continued)

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

	2009		2008	
	United States Dollars ("USD")'000	**Hong Kong Dollars ("HKD")'000**	USD'000	HKD'000
Assets	**694**	**15,729**	1,118	–
Liabilities	**–**	**–**	282	–

The Group is mainly exposed to the currency of USD and HKD.

The following table details the Group's sensitivity to a 5% (2008: 5%) increase and decrease in RMB against the relevant foreign currencies. 5% (2008: 5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rates. A positive number below indicates a decrease in post-tax profit where RMB strengthen 5% (2008: 5%) against the relevant currency. For a 5% (2008: 5%) weakening of RMB against the relevant currency, there would be an equal and opposite impact on the profit, and the balances below would be negative.

	2009 RMB'000	2008 RMB'000
Impact on profit for the year	**928**	286

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank borrowings (see Note 25 for details). The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider other necessary action when significant interest rate exposure is anticipated.

The Group is also exposed to cash flow interest rate risk in relation to bank balances carried at prevailing market rate. However, such exposure is minimal to the Group as the bank balances are all short-term in nature.

7. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management objectives and policies (Continued)

(iii) Credit risk

As at 31 December 2009, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade receivable at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with good reputation.

The Group has concentration of credit risk as 49% (2008: 19%) and 82% (2008: 54%) of the total trade receivables was due from the Group's largest customer and the five largest customers, respectively.

The Group's concentration of credit risk by geographical location is mainly in the PRC, which accounted for 83% (2008: 56%) of the total trade receivables.

The Group has no other significant concentration of credit risk, with exposure spreading over a number of counterparties.

(iv) Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and other source of fundings and considers the risk is minimal.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group will be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curves at the end of the reporting period.

7. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management objectives and policies (Continued)

(iv) Liquidity risk (Continued)

Liquidity risk tables

	Weighted average effective interest rate	Carrying amounts RMB'000	Total undiscounted cash flows and due within one year RMB'000
As at 31 December 2009			
Non-derivative financial liabilities			
Trade and other payables	**–**	**3,417**	**3,417**
Amounts due to controlling shareholders	**–**	**2,983**	**2,983**
Amounts due to related parties	**–**	**393**	**393**
Secured bank borrowings	**5.31%**	**2,000**	**2,040**
		8,793	**8,833**
As at 31 December 2008			
Non-derivative financial liabilities			
Trade and other payables	–	12,274	12,274
Amounts due to related parties	–	106	106
Secured bank borrowings	6.80%	1,922	1,932
		14,302	14,312

(c) Fair value

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instrument.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate to their fair values due to their short-term maturities.

8. TURNOVER

Turnover represents the net amounts received and receivable for goods sold in the normal course of business, net of discounts and sales related taxes.

9. SEGMENT INFORMATION

The Group's turnover and profit during the year are mainly derived from manufacturing and wholesaling of apparels, whose operating results are reviewed regularly by the Group's Chief Executive Officer to make decisions about resources to be allocated to the segment and assess its performance. Accordingly, there is only one operating segment for the Group.

Geographical information
The Group's revenue from external customers by geographical location are detailed below:

	2009	2008
	RMB'000	RMB'000
Turnover based on geographical locations of external customers		
Hong Kong	**10,199**	6,608
PRC (excluding Hong Kong)	**127,421**	128,371
Others	**8,383**	9,185
	146,003	144,164

An analysis of segment assets and capital expenditure by geographical area in which the assets are located has not been presented as the Group's assets are substantially located in the PRC.

Information about major customers
The Group's customer base includes three (2008: three) customers with whom transactions have exceeded 10% of the Group's revenues. In 2009, revenues from these customers amounted to approximately RMB59.8 million, RMB21.4 million and RMB18.2 million (2008: RMB57.4 million, RMB34.8 million and RMB24.3 million) respectively.

10. OTHER OPERATING INCOME

	2009 RMB'000	2008 RMB'000
Written off of long outstanding payables	**393**	–
Bank interest income	**23**	56
	416	56

11. FINANCE COSTS

	2009 RMB'000	2008 RMB'000
Interest on bank borrowings wholly repayable within one year	**246**	78

12. PROFIT BEFORE TAX

	2009 RMB'000	2008 RMB'000
Profit before tax has been arrived at after charging:		
Directors' emoluments (Note 14)	**164**	63
Other staff costs	**19,672**	17,782
Retirement benefits scheme contributions, excluding directors	**4,421**	1,730
Total staff costs	**24,257**	19,575
Amortisation of prepaid lease payments	**132**	44
Auditors' remuneration	**484**	9
Cost of inventories recognised	**125,909**	125,331
Depreciation of property, plant and equipment	**713**	479
Exchange loss	**57**	185
Operating lease rental paid in respect of rented premises	**132**	86

13. INCOME TAX EXPENSE

During the year, Hong Kong Profits Tax has not been provided for in the consolidated financial statements as there was no assessable profit derived from Hong Kong (2008: Nil).

Pursuant to the laws and regulations of the Cayman Islands and BVI, the Group is not subject to any income tax in the Cayman Islands and BVI.

During the year, no provision for PRC Enterprise Income Tax has been made in the consolidated financial statements as all of the PRC subsidiaries were exempted from PRC Enterprise Income Tax (2008: Nil).

Pursuant to the relevant laws and regulations in the PRC, the Group's PRC subsidiaries are exempted from PRC Enterprise Income Tax for two years starting from their first profit-making year, followed by a 50% reduction for the next three years (the "Tax exemption"). The PRC subsidiaries which are currently entitled to the Tax exemptions from 1 January 2008 would continue to enjoy such treatments until the Tax exemptions period expires, but not beyond 2012.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

The income tax expense for the year can be reconciled to the profit per the consolidated statement of comprehensive income as follows:

	2009 **RMB'000**	2008 RMB'000
Profit before tax	**15,698**	17,393
Tax expense at rates applicable to profits in the countries concerned	**4,134**	4,348
Tax effect of expenses not deductible for tax purpose	**20**	296
Tax effect of tax exemption granted to PRC subsidiaries	**(4,154)**	(3,377)
Utilisation of tax losses previously not recognised	**–**	(1,267)
Income tax expense for the year	**–**	–

Under the New Law of PRC, withholding tax is imposed on dividends in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards (the "Post-2008 Earnings"). Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary difference attributable to the "Post-2008 Earnings" as the Group is able to control the timing of reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

14. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors

The emoluments paid or payable to each of the five (2008: five) directors were as follows:

	Fees RMB'000	Salaries and other allowances RMB'000	Retirement benefits scheme contributions RMB'000	Total RMB'000
For the year ended 31 December 2009				
Executive director:				
Mr. Cai SY	–	60	3	63
Mr. Cai SP	–	60	2	62
Independent non-executive director:				
Mr. Lin Anqing (林安慶)	13	–	–	13
Ms. Lin Peifen (林佩芬)	13	–	–	13
Mr. Liu Jianlin (劉建林)	13	–	–	13
Total	39	120	5	164
For the year ended 31 December 2008				
Executive director:				
Mr. Cai SY	–	60	3	63
Mr. Cai SP	–	–	–	–
Independent non-executive director:				
Mr. Lin Anqing (林安慶)	–	–	–	–
Ms. Lin Peifen (林佩芬)	–	–	–	–
Mr. Liu Jianlin (劉建林)	–	–	–	–
Total	–	60	3	63

14. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (CONTINUED)

(b) Employees

Of the five individuals with the highest emoluments in the Group, two (2008: one) were directors of the Company whose emoluments are included in the disclosures in Note 14(a) above. The emoluments of the remaining three (2008: four) individuals were as follows:

	2009 RMB'000	2008 RMB'000
Salaries and other allowances	**178**	192
Retirement benefits scheme contributions	**7**	7
	185	199

Note: The emolument of each of the above employees is below RMB880,000 (approximately HK$1,000,000).

During the years ended 31 December 2008 and 2009, no emoluments were paid by the Group to any directors or the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors waived any emolument during the years ended 31 December 2008 and 2009.

15. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to owners of the Company of approximately RMB15,702,000 (2008: RMB17,393,000) and the weighted average number of shares in issue during the year of 370,000,000 (2008: 370,000,000). The weighted average number of shares in issue during the years ended 31 December 2008 and 2009 is based on the assumption that 370,000,000 shares of the Company were in issue as if the shares issued at the date the Company became the holding company of the Group were outstanding throughout the entire year.

There were no dilutive earnings presented as there were no dilutive potential ordinary shares outstanding during the years ended 31 December 2008 and 2009.

16. DIVIDEND

No dividends have been paid or declared by the Company since the date of its incorporation on 10 June 2009.

17. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Machinery RMB'000	Office equipment, furniture and fixtures RMB'000	Leasehold improvement RMB'000	Total RMB'000
COST					
At 1 January 2008 and 31 December 2008	4,918	2,639	111	–	7,668
Acquired from combining a subsidiary under common control	3,723	–	–	–	3,723
Additions	–	44	–	585	629
At 31 December 2009	8,641	2,683	111	585	12,020
ACCUMULATED DEPRECIATION					
At 1 January 2008	461	620	27	–	1,108
Provided for the year	222	237	20	–	479
At 31 December 2008	683	857	47	–	1,587
Acquired from combining a subsidiary under common control	42	–	–	–	42
Provided for the year	347	241	20	105	713
At 31 December 2009	1,072	1,098	67	105	2,342
CARRYING VALUES					
At 31 December 2009	7,569	1,585	44	480	9,678
At 31 December 2008	4,235	1,782	64	–	6,081

All the buildings of the Group are situated on land with medium-term land use rights in the PRC.

The above items of property, plant and equipment are depreciated on a straight-line basis. The estimated useful lives of the property, plant and equipment are as follows:

Buildings	20 years or over the lease term of the relevant land, whichever is shorter
Machinery	10 years
Office equipment, furniture and fixtures	5 years
Leasehold improvement	5 years or over the relevant lease, whichever is shorter

18. PREPAID LEASE PAYMENTS

	2009 RMB'000	2008 RMB'000
The Group's prepaid lease payments comprise:		
Leasehold land in the PRC under medium-term lease	**7,565**	2,079
Analysed for reporting purposes as:		
Current asset	**161**	44
Non-current asset	**7,404**	2,035
	7,565	2,079

The prepaid lease payments are amortised over the lease term of 50 years.

19. INVENTORIES

	2009 RMB'000	2008 RMB'000
Raw materials	**1,629**	94
Work-in-progress	**1,093**	10,995
Finished goods	**4,792**	3,131
	7,514	14,220

20. TRADE AND OTHER RECEIVABLES

	2009 RMB'000	2008 RMB'000
Trade receivables	**25,791**	17,249
Prepayments and deposits (Note a)	**298**	1,085
Other receivables (Note b)	**–**	3,257
	26,089	21,591

20. TRADE AND OTHER RECEIVABLES (CONTINUED)

Note:

a. As at 31 December 2008, included in prepayments and deposits are rental deposit paid and prepaid rentals and certain expenses amounting to approximately RMB832,000 paid to Hong Feng Textile, a company in which Mr. Cai SY and Mr. Cai SP had beneficial interests. Hong Feng Textile was combined to the Group in March 2009 as disclosed in Note 1.

b. As at 31 December 2008, included in other receivables of approximately RMB410,000 is staff advance made to Mr. Cai Jiabo (蔡家搏), who is the son of Mr. Cai SP. The amount is unsecured, non-interest bearing and has been fully settled during the year.

The Group generally allows an average credit period of 90 to 180 days to its trade customers, where payment in advance is normally required.

The aged analysis of the Group's trade receivables is as follows:

	2009 **RMB'000**	2008 RMB'000
0 – 90 days	**18,282**	15,650
91 – 180 days	**7,429**	775
181 – 365 days	**15**	780
Over 365 days	**65**	44
Total	**25,791**	17,249

No impairment loss is provided for the trade receivables that are neither past due nor impaired because these receivables are within credit period granted to the respective customers and the management considers the default rate is low for such receivables based on historical information and past experience.

In determining the recoverability of a trade receivable, the Group considers any change in credit quality of the trade receivable from the date credit was initially granted up to the reporting date. In view of the good settlement history of those receivables of the Group which are past due but not impaired for the year, the directors of the Company consider that no allowance is required.

Aging of trade receivables which are past due but not impaired:

		Neither past due	**Past due but not impaired**		
	Total	**nor impaired**	**< 90 days**	**91 – 180 days**	**181 – 365 days**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
2008	17,249	16,417	651	137	44
2009	25,791	25,711	–	17	63

The Group does not hold any collateral over these balances.

20. TRADE AND OTHER RECEIVABLES (CONTINUED)

The above Group's trade receivables that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	2009 '000	2008 '000
USD	**644**	1,118

21. AMOUNTS DUE FROM (TO) RELATED PARTIES

	2009 RMB'000	2008 RMB'000
Amounts due from related parties		
Non-trading in nature		
Ms. Cai Shuyan (蔡淑燕) (Note a)	**–**	50
Jiangxi Jianfa Real Estate Development Co., Ltd. (江西建發房地產開發有限公司) ("Jianfa Real Estate") (Note b)	**–**	995
Total amounts due from related parties	**–**	1,045
Maximum amount outstandings during the year		
Ms. Cai Shuyan (蔡淑燕)	**50**	50
Jianfa Real Estate	**995**	995

The amounts are unsecured, non-interest bearing and are repayable on demand. The amounts due from related parties were fully settled during the year.

	2009 RMB'000	2008 RMB'000
Amounts due to related parties		
Non-trading in nature		
Mr. Tsoi Kam On (蔡金銨) (Note c)	**–**	106
Cai's International Holdings Limited ("Cai's International") (Note b)	**393**	–
	393	106

The amounts due to related parties are unsecured, non-interest bearing and repayable on demand.

21. AMOUNTS DUE FROM (TO) RELATED PARTIES (CONTINUED)

Notes:

a. Ms. Cai Shuyan (蔡淑燕) is the spouse of Mr. Cai SY.

b. Mr. Cai SY and Mr. Cai SP have beneficial interests in Jianfa Real Estate and Cai's International.

c. Mr. Tsoi Kam On (蔡金銨) is the brother of Mr. Cai SY.

22. BANK BALANCES AND CASH

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less.

At 31 December 2009, the Group's bank balances and cash denominated in RMB amounted to approximately RMB5,695,000 (2008: RMB3,976,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

The bank balances and bank deposits carry average interest rate of 0.11% (2008: 0.69%) per annum.

Included in bank balances and cash are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	2009 **'000**	2008 '000
USD	**50**	–
HKD	**15,729**	–

23. TRADE AND OTHER PAYABLES

The aged analysis of the Group's trade payables is as follows:

	2009 **RMB'000**	2008 RMB'000
0 – 30 days	**1,830**	5,570
31 – 90 days	**–**	3,493
91 – 180 days	**–**	–
Over 180 days	**–**	676
	1,830	9,739
Other payables	**2,062**	2,741
	3,892	12,480

24. AMOUNTS DUE TO CONTROLLING SHAREHOLDERS

The amounts are unsecured, non-interest bearing and repayable on demand.

25. SECURED BANK BORROWINGS

	2009 **RMB'000**	2008 RMB'000
Bank borrowings due within one year	**2,000**	1,922

The bank borrowings carry fixed interest rates of 5.31% (2008: 6.80%) per annum for the year.

At 31 December 2008 and 2009, the bank borrowings are secured by certain assets of the Group as set out in Note 30.

In addition, at 31 December 2008, the bank borrowings are secured by:

- land and buildings owned by an independent third party, Wannian County Meiling Apparel and Knitting Co. Ltd. (萬年縣美岭服飾織造有限公司) ("Meiling"), a company wholly-owned by one of the Group's customers; and
- guaranteed by Mr. Cai SY, Mr. Cai SP and Mr. Cai Jiabo (蔡家搏).

The above Group's bank borrowings that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	2009 **'000**	2008 '000
USD	**–**	282

The amounts of banking facilities and the utilisation at each reporting period are set out as follows:

	2009 **RMB'000**	2008 RMB'000
Facility amount	**3,000**	4,000
Utilisation at 31 December	**–**	1,922

25. SECURED BANK BORROWINGS (CONTINUED)

At 31 December 2008 and 2009, the banking facilities are secured by:

- certain assets of the Group as set out in Note 30;
- land and buildings owned by Meiling; and
- guaranteed by Mr. Cai SY and Mr. Cai SP.

In addition, at 31 December 2008, the banking facilities were also secured by personal guarantee provided by Mr. Cai Jiabo (蔡家搏).

The directors of the Company are of the opinion that no consideration paid or payable to Meiling for the provision of the above security to the Group and the Group did not provide any cross guarantee to Meiling during both years.

26. SHARE CAPITAL

As the Company was not yet incorporated prior to 31 December 2008 and the Reorganisation was not completed as at 31 December 2008, the share capital in the consolidated statements of financial position as at 1 January 2008 and 31 December 2008 represented the combined paid-in capital of the companies now comprising the Group in which the owners of the Company held direct interests.

Movements of the authorised share capital of the Company during the year are as follows:

	Note	**Par Value**	**Number of ordinary shares**	**Nominal value of ordinary shares**
		HK$		HK$'000
Authorised:				
At 10 June 2009	(a)	0.01	38,000,000	380
Increase in the year	(c)	0.01	962,000,000	9,620
At 31 December 2009		0.01	1,000,000,000	10,000

26. SHARE CAPITAL (CONTINUED)

A summary of the movements in the Company's issued share capital for the period from 10 June 2009 (date of incorporation of the Company) to 31 December 2009 is as follows:

	Note	**Par Value**	**Number of ordinary shares**	**Nominal value of ordinary shares**	
		HK$		HK$'000	RMB'000
Issued and fully paid:					
At 10 June 2009	(a)	0.01	1	–	–
Shares issued on Reorganisation	(b)	0.01	36,999,999	370	326
Shares issued by capitalisation	(d)	0.01	259,000,000	2,590	2,279
Shares issued under placing	(e)	0.01	74,000,000	740	651
At 31 December 2009		0.01	370,000,000	3,700	3,256

Notes:

(a) The Company was incorporated in the Cayman Islands on 10 June 2009 with an authorised capital of 38,000,000 shares of HK$0.01 each. Upon incorporation, one share was allotted and issued at nil paid to the subscriber and the one nil paid share was subsequently transferred to its sole shareholder on the same date.

(b) Pursuant to the Reorganisation and as consideration for the acquisition by the Company of the one ordinary share of US$1.00 each in the issued share capital of Newshine International Limited, on 14 September 2009, (i) 36,999,999 shares, all credited as fully paid, were allotted and issued to its sole shareholder; and (ii) the one nil paid share then held by the sole shareholder was credited as fully paid at par.

(c) By written resolution of the sole shareholder passed on 15 September 2009, the authorised share capital of the Company was increased from HK$380,000 to HK$10,000,000 by the creation of an additional of 962,000,000 shares of HK$0.01 each, each ranking pari passu with the shares then in issue in all respects.

(d) Pursuant to the written resolution on 15 September 2009, the Company allotted and issued a total of 259,000,000 shares credited as fully paid at par to the then shareholders of the Company at the close of business on 14 September 2009 in proportion to their respective shareholdings by way of capitalisation of a sum of approximately RMB2,279,000, conditional on the placing of the Company's shares in Hong Kong.

(e) On 7 October 2009, a total number of 74,000,000 shares were issued to the public at HK$0.30 per share for cash totalling approximately RMB19,733,000. The excess of the issue price over the par value of the shares, net of share issuing expenses of approximately RMB6,161,000, were credited to the share premium account of the Company.

27. RETIREMENT BENEFIT SCHEME

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the plans are held separately from those of the Group in funds under the control of trustees.

The Group's subsidiaries in the PRC, in compliance with the applicable regulations of the PRC, participate in social insurance schemes operated by the relevant local government authorities. The insurance premium is borne by the Group on a specified proportion of the employee's salaries laid down under relevant PRC laws.

The total expense recognised in the consolidated statement of comprehensive income of approximately RMB4,426,000 (2008: RMB1,733,000) represents contributions payable to these schemes by the Group at rates or amount specified in the rules of the schemes.

The Group has no significant obligation apart from the contribution as above as at the end of the reporting period.

28. OPERATING LEASE COMMITMENTS

The Group leases certain of its office premises and production plants under operating lease arrangements with leases negotiated for an average term of 1 to 5 years and rentals are fixed.

At the end of the reporting period, the Group had the following future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2009 **RMB'000**	2008 RMB'000
Within one year	**57**	172
In the second to fifth year inclusive	**91**	288
	148	460

As at 31 December 2009, included in the above is commitment under non-cancellable operating leases of approximately RMB120,000 (2008: Nil) which expires in 2014 payable to Mr. Tsoi Kam On (蔡金銨).

In addition, as at 31 December 2008, included in the above is commitment under non-cancellable operating leases of approximately RMB432,000 which expires in 2011 payable to Hong Feng Textile. Hong Feng Textile was combined into the Group in March 2009.

29. CAPITAL COMMITMENTS

	2009 RMB'000	2008 RMB'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of the acquisition of:		
– Property, plant and equipment	**3,203**	–
– Interest in a subsidiary (Note)	**3,500**	–
	6,703	–

Note: On 23 December 2009, Sino Prosper has conditionally entered into Equity Transfer Agreement II whereby Sino Prosper agreed to purchase from and Hong Feng International agreed to dispose of the remaining 30% of the equity interest in Hong Feng Textile for a consideration of approximately RMB3.5 million. The acquisition is approved by independent shareholders in an extraordinary general meeting held on 28 January 2010.

30. PLEDGED OF ASSETS

The Group had pledged certain of its buildings, prepaid lease payments and machinery to secure banking facilities granted to the Group at the end of the reporting period. The carrying values of the assets pledged are as follows:

	2009 RMB'000	2008 RMB'000
Buildings	**7,569**	3,456
Prepaid lease payments	**7,565**	2,079
Machinery	**1,078**	1,252
	16,212	6,787

31. SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme") was adopted pursuant to a written resolution of the sole shareholder passed on 15 September 2009 for the primary purpose of providing incentives and rewards to directors and eligible participants. Since the Scheme was adopted, no share option has been granted, exercised or cancelled by the Company. As at 31 December 2009, there are no outstanding share options under the Scheme (2008: Nil).

32. RELATED PARTY TRANSACTIONS

Except as disclosed in Note 1, 20, 21, 24, 25, 28 and 29 in the consolidated financial statements, the Group entered into the following significant related party transactions during the year:

(a) Rental expenses of RMB28,800 (2008: RMB47,000) and RMB36,000 (2008: Nil) were paid to Mr. Tsoi Kam On and Hong Feng Textile, respectively. In the opinion of the directors of the Company, the transactions were conducted on normal commercial terms and in the ordinary course of business. Hong Feng Textile was combined into the Group in March 2009 as disclosed in Note 1.

32. RELATED PARTY TRANSACTIONS (CONTINUED)

(b) The remuneration of directors and other members of key management during the year was as follows:

	2009 RMB'000	2008 RMB'000
Salaries and other allowances	**318**	252
Retirement benefits scheme contributions	**18**	10
	336	262

33. THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Notes	**2009 RMB'000**
Non-current asset		
Investment in a subsidiary		**325**
Current assets		
Amount due from a subsidiary	(b)	**1,665**
Bank balances and cash		**12,115**
		13,780
Current liabilities		
Other payables		**510**
Amounts due to controlling shareholders	(b)	**28**
Amount due to a subsidiary	(b)	**507**
		1,045
Net current assets		**12,735**
Net assets		**13,060**
Capital and reserves		
Share capital		**3,256**
Reserves	(c)	**9,804**
Total equity		**13,060**

33. THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

Notes:

(a) No comparative figure for 2008 was shown as the Company was incorporated on 10 June 2009.

(b) Amounts due from a subsidiary/amounts due to controlling shareholders and a subsidiary are unsecured, non-interest bearing and repayable on demand.

(c) Reserves

	Share premium RMB'000	**Accumulated losses** RMB'000	**Total** RMB'000
At 10 June 2009	–	–	–
Shares issued under placing	19,082	–	19,082
Shares issued by capitalisation	(2,279)	–	(2,279)
Share issuing expenses	(6,161)	–	(6,161)
Loss for the period	–	(838)	(838)
At 31 December 2009	10,642	(838)	9,804

34. SUBSIDIARIES

Details of the subsidiaries at 31 December 2009, are as follows:

Name of company	Place of incorporation/ establishment/ operations	Class of shares held	Equity interest attributable to the Group Direct	Equity interest attributable to the Group Indirect	Issued and fully paid share capital/ registered capital	Principal activities
Newshine International Limited 新光國際有限公司	BVI	Ordinary	100%	–	USD 1	Investment holding
Sino Prosper (Asia) Limited 華盛(亞洲)有限公司	Hong Kong	Ordinary	–	100%	HK$1	Investment holding
Wannianxian Xiefeng Textiles and Garments Co., Ltd. # 萬年縣協豐紡織有限公司	The PRC	Contributed Capital	–	100%	HK$3,200,000	Manufacturing and wholesaling of apparels
Wan Nian County Xiang Yun Fibers and Fabrics Co., Ltd. # 萬年縣洋雲纖維紡織有限公司	The PRC	Contributed Capital	–	100%	USD 1,300,000	Manufacturing and wholesaling of apparels
Jiangxi Province Wan Nian Xing Textiles and Dress Co., Ltd. # 江西省萬年興紡織服裝有限公司	The PRC	Contributed Capital	–	100%	USD 1,300,000	Manufacturing and wholesaling of apparels
Jiangxi Hong Feng Textile Company Limited # 江西泓峰紡織有限公司	The PRC	Contributed Capital	–	70%	RMB 31,200,000	Property holding

These entities are wholly-foreign owned enterprises established in the PRC.

None of the subsidiaries had any debt securities outstanding as at the end of the year or at any time during the year.

35. EVENTS AFTER THE REPORTING PERIOD

As disclosed in Note 29 and mentioned in the announcement and circular issued by the Company dated 23 December 2009 and 13 January 2010 respectively, Sino Prosper conditionally entered into Equity Transfer Agreement II on 23 December 2009 whereby Sino Prosper agreed to purchase from and Hong Feng International agreed to dispose of the remaining 30% of the equity interest in Hong Feng Textile for a consideration in cash of approximately RMB 3.5 million. On 28 January 2010, approval of the acquisition was obtained from the independent shareholders in an extraordinary general meeting.