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 2010

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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, the information contained in this report is accurate and complete in all material respects and not misleading or deceptive; and there are no other matters the omission of which would make any statement herein or this report misleading.

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.

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Corporate Information

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

Clifton House
75 Fort Street
PO Box 1350
Grand Cayman
KY1-1108
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Central
Hong Kong

HEAD OFFICE IN THE PRC

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Wannian County
Jiangxi Province
the PRC

CAYMAN ISLANDS SHARE REGISTRAR AND TRANSFER OFFICE

Appleby Trust (Cayman) Ltd.
Clifton House
75 Fort Street
PO Box 1350
Grand Cayman
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Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

PRINCIPAL BANKER

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

COMPLIANCE ADVISER

TC Capital Asia Limited

COMPANY WEBSITE

www.jcholding.hk

STOCK CODE

08305

Chairman's Statement

On behalf of the Board, I am pleased to present to our valued shareholders and investors the 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 2010.

PRINCIPAL ACTIVITIES

We are principally engaged in the manufacturing and wholesaling of apparels. Our apparels are mainly sold to domestic import and export companies and overseas trading companies for export. Since March 2008, we have actively promoted and marketed our apparels in the domestic market. The apparels produced by our Group can be broadly categorized into cotton and sweat jacket, sportswear and leisurewear, trousers and children garment.

BUSINESS REVIEW

Following a sharp and broad global downturn in late 2008, the economy appears to be recovering in 2010. During the year under review, we continued marketing and promoting our apparels and the turnover for the last quarter in 2010 reached RMB60.0 million. As at 31 December 2010, apart from our established export channels, we have a domestic distribution network consisting of two self-owned stores, six franchise shops and forty distribution outlets across Jiangxi province, Hunan province, Fujian province and Guangxi province for the sales and marketing of our own design products. To cater for our anticipated business expansion, production in our Hongfeng Textile factory with an annual production capacity of 2,500,000 pieces of apparels had been commenced in July 2010.

With the continuous effort in promoting our products, we recorded a turnover of RMB202.2 million for the year ended 31 December 2010, a 38.5% increase as compared to RMB146.0 million for 2009. Profit and total comprehensive income attributable to shareholders of the Company increased by 47.0% from RMB15.7 million for the year ended 31 December 2009 to RMB23.1 million for the year ended 31 December 2010.

Looking forward, we still face same challenges as other manufacturers in China – the fluctuation of the price of raw materials, the rise of the statutory minimum wages and the uncertainty economic environment. Despite such challenges, we will endeavor to develop our domestic distribution network and to improve our operational efficiency by optimizing our production process with an aim to better control our operating costs.

APPRECIATION

On behalf of the board, I would like to express my sincere gratitude to our shareholders, business partners and others who have extended their invaluable support to the Group and my fellow directors and all staff for their considerable contributions to the Group.

On behalf of the Board
Cai Shuiyong
Chairman

Jiangxi Province, The People's Republic of China, 21 February 2011

Biographical Information of Directors and Senior Management

BOARD OF DIRECTORS

Executive Directors

Mr. Cai Shuiyong (蔡水泳), aged 44, 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 15 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 Hongfeng Textile Company Limited ("Hongfeng 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 54, 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 10 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 44, 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 41, 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 over 10 years of experience in the hotel industry.

Mr. Liu Jianlin (劉建林), aged 41, 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.

Biographical Information of Directors and Senior Management

SENIOR MANAGEMENT

Ms. Cai Shuyan (蔡淑燕), aged 43, 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 28, 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 39, 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 39, 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. The apparels produced by the Group can be broadly categorized into cotton and sweat jacket, sportswear and leisurewear, trousers and children garment.

As at 31 December 2010, apart from its established export channels, the Company has a domestic distribution network consisting of two self-owned stores, six franchise shops and forty distribution outlets across Jiangxi province, Hunan province, Fujian province and Guangxi province for the sales and marketing of its own design products. To cater for the anticipated business expansion, the production in the Hongfeng Textile factory with a gross floor area of 2,770 square meters had been commenced in July 2010. With this new factory, the annual production capacity of the Company has been increased by approximately 2,500,000 pieces of apparels.

The newly established research and development department has also been in operation since July 2010. This department is mainly focused on the improvement of manufacturing processes with a view to enhance productivity and quality control and the new product designs.

On 23 December 2009, the Company made an announcement to acquire the remaining 30% of the shareholding of Hongfeng Textile with a view to secure its main production base and to apply the net proceeds to establish additional production line and a research and development department. The acquisition constitutes a connected transaction of the Company under rule 20.13 of the GEM Listing Rules and has been approved by independent shareholders on 28 January 2010.

FINANCIAL REVIEW

Turnover

During the period under review, the Company recorded a turnover of RMB202.2 million for the year ended 31 December 2010, a 38.5% increase as compared to RMB146.0 million for 2009. Profit and total comprehensive income attributable to shareholders of the Company increased by 47.0% from RMB15.7 million for the year ended 31 December 2009 to RMB23.1 million for the year ended 31 December 2010.

The turnover of the Company's original equipment manufacturing apparels sold to domestic import and export companies and overseas trading companies for export for the year ended 31 December 2010 was RMB173.7 million (for the year ended 31 December 2009: RMB132.8 million), which is 30.8% higher than that for the corresponding period in 2009.

The Company also distributes its own brand apparels to local chain stores, its franchise stores and through its wholesale outlets in China. The turnover of the distribution of Company's brand apparels for the year ended 31 December 2010 was RMB28.6 million (for the year ended 31 December 2009: RMB13.3 million), which is 115.6% higher than that for the corresponding period in 2009.

In term of production mode, turnover of original equipment manufacturing products represent 85.9% of the total turnover (for the year ended 31 December 2009: 90.9%) while turnover of the brand products only account for 14.1% (for the year ended 31 December 2009: 9.1%).

Management Discussion and Analysis

Gross profit

The Group achieved a gross profit of approximately RMB32.8 million for the year ended 31 December 2010 (for the year ended 31 December 2009: RMB20.2 million), representing an increase of 62.8% as compared to that for the corresponding period in 2009. Gross profit margin, calculated as gross profit divided by turnover, for the year ended 31 December 2010 amounted to 16.2% (2009: 13.8%). The increase in gross margin in 2010 was mainly attributable to the increase in unit selling price of the Company's products.

Selling and distribution costs

Align with the Company's business growth, the selling and distribution costs have been increased from RMB666,000 for the year ended 31 December 2009 to RMB1,761,000 for the year ended 31 December 2010, representing an increase of 164.4%. The increase in selling and distribution costs was mainly attributable to the increase in marketing expenses on promoting the Company's brands and franchise stores and the increase in transportation costs.

Administrative expenses

Despite the significant increase in turnover and gross profit, with stringent cost controls, the administrative expenses of the Company have been only increased by 6.0% from approximately RMB3,971,000 for the year ended 31 December 2009 to approximately RMB4,211,000 for the year ended 31 December 2010. The increase in administrative expenses was mainly attributable to the net effect of the increase in professional fees and the decrease in staff training and welfare expenses.

Income tax expense

Pursuant to the relevant laws and regulations in the PRC, the Group's PRC subsidiaries are exempted from PRC Enterprise Income Tax (the "EIT") for the two years starting from their first profit-making year, followed by a 50% tax concession for the next three years. Such EIT exemption will end on 31 December 2012. As the Group's PRC operating subsidiaries have been profit-making or deem to be profit-making since 1 January 2008, they are exempted from the EIT from 1 January 2008 to 31 December 2009 and are entitled to a 50% tax concession from 1 January 2010 to 31 December 2012. The effective tax rate of the Group for the year ended 31 December 2010 is 13.6% (for the year ended 31 December 2009: nil).

Profit and total comprehensive income attributable to owners of the Company

As a results of the above changes, the profit and total comprehensive income attributable to owners of the Company increased by 47.0% from approximately RMB15.7 million for the year ended 31 December 2009 to RMB23.1 million for the year ended 31 December 2010.

Basic earnings per share

Basic earnings per share for the year ended 31 December 2010 amounted to RMB0.062 (2009: RMB0.042), representing an increase of 47.6% as compared with corresponding period in 2009.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2010, the Group had 1,774 (2009: 1,439) employees, including Directors. Total staff costs for the year under review, including Directors' remuneration, amounted to approximately RMB31.8 million (2009: approximately RMB24.3 million). The Group's remuneration policies are in line with the prevailing market standards and are determined on the basis of performance and experience of individual employee. Other employee benefits include contributions to social insurance scheme.

The Group has adopted a share option scheme pursuant to which the Directors may grant options to individuals including Directors, employees or consultants 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 2010, the Group had total assets of approximately RMB97.4 million and net assets of approximately RMB81.0 million. The Group's cash and bank balances as at 31 December 2010 amounted to approximately RMB26.0 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 and 2010, the Group had pledged certain of its building, prepaid lease payments and machinery to secure banking facilities granted to the Group. The carrying value of the assets pledged are as follows:

	2010 **RMB'000**	2009 RMB'000
Buildings	**–**	7,569
Prepaid lease payments	**5,415**	7,565
Machineries	**–**	1,078
	5,415	16,212

CONTINGENT LIABILITIES

As at 31 December 2009 and 2010, the Group did not have any significant contingent liabilities.

FOREIGN EXCHANGE EXPOSURE

The Group's transactions are mainly denominated in 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 2.5% for the year under review (2009: 3.3%).

CAPITAL STRUCTURE

The capital of the Group comprises only ordinary shares. As at 31 December 2010, the total number of the ordinary shares of the Group in issue was 370,000,000 shares.

Management Discussion and Analysis

SIGNIFICANT INVESTMENT HELD AND MATERIAL ACQUISITIONS AND DISPOSALS

On 23 December 2009, the Company made an announcement to acquire 30% of the shareholding interest in Hongfeng Textile with a view to secure its main production base and apply the net proceeds to establish 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 2010.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save as disclosed in the note 28 to the consolidated financial statements, the Group had no other future plans for material investments or capital assets as at 31 December 2010.

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 2010 is set out below:

	Business objectives for the period from the Listing Date to 31 December 2010 as stated in the Prospectus	**Actual business progress up to 31 December 2010**
1	Expansion of new product design capacity and brand building	The Group has established a research and development department in July 2010 and four research and development staff have been employed. The Group is in the process of negotiating with an independent third party to acquire another trademark. The Group has conducted advertising campaigns on promoting its brand in the PRC.
2	Expansion of production capacity	The production of Hongfeng Textile plant with an annual production capacity of approximately 2,500,000 pieces of apparels has been commenced in July 2010.
3	Expansion of sales and distribution channel	Instead of operating its own distribution outlets, the Group has established a domestic distribution network consisted of two self-owned stores, six franchise shops and forty distribution outlets. The Group has employed three sales and marketing staff.

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 2010, 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 2010	**Actual use of proceeds from the date of listing to 31 December 2010**
	HK$'000	HK$'000
Expansion of new product design capacity and brand building	3,100	1,698
Expansion of production capacity	7,500	7,500
Expansion of sales and distribution channel	1,900	693

As certain planned strategic moves, including the acquisition of trademarks and the establishment of self-owned wholesale outlets were postponed, the net proceeds applied during the period from the Listing Date to 31 December 2010 are less than expected. The Directors expect that those business objectives will be revisited in the first half of 2011.

All the remaining proceeds as at 31 December 2010 had been placed as interest bearing deposits in banks in Hong Kong.

OUTLOOK

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 the newly established research and development department to cater for different target customers. 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.

Besides, the Group will continue to monitor the market situation, its distribution network and market coverage by establishing additional distribution outlets in Fujian province, Jiangxi province, Zhejiang province and Guangxi province in the PRC for sales and marketing of the Company's designed products.

With a view to enhance the corporate profile and image of the Group and to improve the public awareness of the Company, as disclosed in the announcement of the Company dated 10 February 2011, the Company is actively considering the possibility for the transfer of listing of the shares of the Company from the GEM to the Main Board of the Stock Exchange, subject to the fulfilment of the qualifications for the transfer. The Directors consider that the transfer of listing will also be beneficial to the future growth, financing flexibility and business development of the Group.

Report of the Directors

The Board has pleasure in submitting its report and the audited consolidated financial statements for the year ended 31 December 2010.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and the activities of its subsidiaries are set out in note 33 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 2010 and the state of affairs of the Group at that date are set out in the consolidated financial statements on pages 26 to 72.

The Board does not recommend the payment of any dividend for the year ended 31 December 2010.

SUMMARY FINANCIAL INFORMATION

	Year ended 31 December			
	2007	2008	2009	**2010**
	RMB'000	RMB'000	RMB'000	**RMB'000**
Revenue	106,928	144,164	146,003	**202,232**
Gross profit	14,686	18,833	20,165	**32,823**
Profit before tax	13,492	17,393	15,698	**26,706**
Profit attributable to owners of the Company	13,492	17,393	15,702	**23,081**
Basic earnings per share (RMB)	0.036	0.047	0.042	**0.062**

	As at 31 December			
	2007	2008	2009	**2010**
	RMB'000	RMB'000	RMB'000	**RMB'000**
Non-current assets	8,639	8,116	17,082	**23,749**
Current assets	24,083	40,811	53,641	**73,645**
Current liabilities	16,617	14,508	9,268	**16,383**
Net assets	16,105	34,419	61,455	**81,011**

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 81.7% of the total sales for the year and sales to the largest customer included therein amounted to 22.3%. Purchases from the Group's five largest suppliers accounted for 34.3% of the total purchases for the year and purchases from the largest supplier included therein amounted to 10.5%.

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 16 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 25 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 32 to the consolidated financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2010, the Company's reserves available for distribution to owners comprising share premium account less accumulated losses, amounted to approximately RMB7.9 million (2009: 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. Lin Anging and Ms. Lin Peifen will retire from office as independent non-executive Directors at the forthcoming annual general meeting. In order to be more focused on their own career development, Mr. Lin Anqing and Ms. Lin Peifen will not offer themselves for re-election pursuant to Article 108(a) of the article of association and will resign as an independent non-executive Directors, members of audit committee, remuneration committee and nomination committee with effect from the close the annual general meeting.

At the forthcoming annual general meeting, ordinary resolutions will be put forward to the shareholders of the Company in relation to the proposed election of Mr. Shen Guoquan and Ms. Chan Ling as replacements for Mr. Lin Anqing and Ms. Lin Peifen as independent non-executive Directors. Subject to the approval of shareholders for the appointment of Mr. Shen Guoquan and Ms. Chan Ling as independent non-executive Directors, they will also assume the role of members of audit committee, remuneration committee and nomination committee with immediate effect.

Report of the Directors

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 retired or to be 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 13(a) and 13(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 2010, 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	–	–	231,250,000 [(1)]	231,250,000	62.5%
Mr. Cai Shuiping	–	–	231,250,000 [(1)]	231,250,000	62.5%

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 231,250,000 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 2010, 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 2010, 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:

Name	Capacity	Number of ordinary shares	Percentage of issued share capital
Well Bright	Beneficial owner	231,250,000	62.5%
Ms. Cai Shuyan	Interest of spouse	231,250,000 (1)	62.5%
Ms. Sun Meige	Interest of spouse	231,250,000 (2)	62.5%
Reachup Holdings Limited	Beneficial owner	27,750,000 (3)	7.5%
Mr. Huang Wen Bin	Interest of controlled corporation	27,750,000 (3)	7.5%
Mr. Huang Wen Bin	Beneficial owner	8,720,000	2.4%

Notes:

1. Mr. Cai Shuiyong beneficially owned 50% of Well Bright and Well Bright held 231,250,000 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 under the SFO.

2. Mr. Cai Shuiping beneficially owned 50% of Well Bright and Well Bright held 231,250,000 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 under the SFO.

3. These shares are owned by Reachup Holdings Limited which is wholly owned by Mr. Huang Wen Bin. Therefore, Mr. Huang Wen Bin is deemed to be interested in 27,750,000 shares held by Reachup Holdings Limited under the SFO.

Save as disclosed above, as at 31 December 2010, the Directors were not aware of any persons (who were not Directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed under 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.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 31 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 23 December 2009, Sino Prosper has conditionally entered into an agreement with Hong Feng International whereby Sino Prosper agreed to purchase from Hong Feng International and Hong Feng International agreed to dispose of the remaining 30% of the equity interest in Hongfeng 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 31 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, 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 2010 are set out in note 24 to the consolidated financial statements.

RETIREMENT SCHEMES

Particulars of the retirement schemes of the Group are set out in note 26 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 for the year ended 31 December 2010.

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 2010.

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.

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 Shuiyong 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.

The Group's compliance with the code provisions is set out in the Corporate Governance Report from page 20 to page 23 of this annual report.

COMPLIANCE ADVISOR'S INTEREST

Pursuant to the compliance advisor's agreement dated 3 September 2010 entered into between the Company and TC Capital Asia Limited ("TC Capital"), TC Capital has been appointed as the compliance advisor of the Company for the period commencing from 3 September 2010 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 TC Capital, save for an employee who beneficially held 8,672,000 shares of the Company, none of TC Capital, 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 2010.

AUDITORS

SHINEWING (HK) CPA Limited has acted as auditors of the Company for the year ended 31 December 2010.

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

Jiangxi Province, The People's Republic of China, 21 February 2011

Corporate Governance Report

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 for the year ended 31 December 2010.

BOARD OF DIRECTORS

As at 31 December 2010, 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. 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	4/4
Mr. Cai Shuiping	4/4
Mr. Lin Anqing	4/4
Ms. Lin Peifan	4/4
Mr. Liu Jianlin	4/4

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 Shuiyong 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.

Each of Mr. Lin Anging and Ms. Lin Peifen will retire from office as independent non-executive Directors at the forthcoming annual general meeting. As each of Mr. Lin Anqing and Ms. Lin Peifen wants to be more concentrate in the personal career development, Mr. Lin Anqing and Ms. Lin Peifen will not offer themselves for re-election pursuant to Article 108(a) of the article of association and will resign as an independent non-executive Directors, members of audit committee, remuneration committee and nomination committee with effect from the close the annual general meeting.

At the forthcoming annual general meeting, ordinary resolutions will be put forward to the shareholders of the Company in relation to the proposed election of Mr. Shen Guoquan and Ms. Chan Ling as replacements for Mr. Lin Anqing and Ms. Lin Peifen as independent non-executive Directors. Subject to the approval of shareholders for the appointment of Mr. Shen Guoquan and Ms. Chan Ling as independent non-executive Directors, they will also assume the role of members of audit committee, remuneration committee and nomination committee with immediate effect.

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.

A meeting was held by the nomination committee with all members attended during the year ended 31 December 2010.

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.

A meeting was held by the remuneration committee with all members attended during the year ended 31 December 2010.

AUDITORS' REMUNERATION

For the year ended 31 December 2010, the remuneration paid to the auditors, SHINEWING (HK) CPA Limited in respect of audit services amounted to HK$600,000 (2009: HK$550,000) and non-audit service assignment amounted to HK$200,000 (2009: HK$1,500,000).

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.

Four meetings were 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.

Independent Auditor's Report

信永中和 ShineWing

SHINEWING (HK) CPA Limited
43/F., The Lee Gardens
33 Hysan Avenue
Causeway Bay, Hong Kong

TO THE MEMBERS 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 26 to 72, which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with 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, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

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

Independent Auditor's Report

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2010 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
21 February 2011

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
Turnover	7	**202,232**	146,003
Cost of sales		**(169,409)**	(125,838)
Gross profit		**32,823**	20,165
Other operating income	9	**35**	416
Selling and distribution costs		**(1,761)**	(666)
Administrative expenses		**(4,211)**	(3,971)
Finance costs	10	**(180)**	(246)
Profit before tax		**26,706**	15,698
Income tax expense	11	**(3,625)**	–
Profit and total comprehensive income for the year	12	**23,081**	15,698
Profit and total comprehensive income attributable to:			
Owners of the Company		**23,089**	15,702
Non-controlling interests		**(8)**	(4)
		23,081	15,698
Earnings per share (RMB):			
Basic and diluted	14	**0.062**	0.042

Consolidated Statement of Financial Position

As at 31 December 2010

	Notes	**2010** RMB'000	2009 RMB'000
Non-current assets			
Property, plant and equipment	16	**16,506**	9,678
Prepaid lease payments	17	**7,243**	7,404
		23,749	17,082
Current assets			
Inventories	18	**13,794**	7,514
Trade and other receivables	19	**33,646**	26,089
Prepaid lease payments	17	**161**	161
Bank balances and cash	20	**26,044**	19,877
		73,645	53,641
Current liabilities			
Trade and other payables	21	**13,082**	3,892
Amounts due to controlling shareholders	22	**–**	2,983
Amount due to a related party	23	**–**	393
Tax liabilities		**1,301**	–
Secured bank borrowings	24	**2,000**	2,000
		16,383	9,268
Net current assets		**57,262**	44,373
Total assets less current liabilities		**81,011**	61,455
Capital and reserves			
Share capital	25	**3,256**	3,256
Reserves		**77,755**	56,325
Equity attributable to owners of the Company		**81,011**	59,581
Non-controlling interests		**–**	1,874
Total equity		**81,011**	61,455

The consolidated financial statements on pages 26 to 72 were approved and authorised for issue by the board of directors on 21 February 2011 and are signed on its behalf by :

Cai Shuiyong **Cai Shuiping**

Consolidated Statement of Changes in Equity

For the year ended 31 December 2010

	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)	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2009	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
Total comprehensive income for the year	–	–	–	–	–	23,089	23,089	(8)	23,081
Acquisition of additional equity interests in a subsidiary from non-controlling shareholder (Note 31(c))	–	–	–	–	(1,659)	–	(1,659)	(1,866)	(3,525)
Appropriation to reserves	–	–	–	2,595	–	(2,595)	–	–	–
At 31 December 2010	3,256	10,642	10	5,256	18,038	43,809	81,011	–	81,011

Consolidated Statement of Changes in Equity

For the year ended 31 December 2010

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 RMB1,932,000 (2009: RMB838,000) which has been dealt with in the financial statements of the Company.

Consolidated Statement of Cash Flows

For the year ended 31 December 2010

	2010 RMB'000	2009 RMB'000
OPERATING ACTIVITIES		
Profit before tax	**26,706**	15,698
Adjustments for:		
Amortisation of prepaid lease payments	**161**	132
Depreciation of property, plant and equipment	**866**	713
Finance costs	**180**	246
Bank interest income	**(35)**	(23)
Impairment loss recognised in respect of trade receivables	**100**	–
Loss on disposal of property, plant and equipment	**99**	–
Written off of long outstanding payables	**–**	(393)
Operating cash flows before movements in working capital	**28,077**	16,373
(Increase) decrease in inventories	**(6,280)**	6,706
Increase in trade and other receivables	**(7,657)**	(4,498)
Increase (decrease) in trade and other payables	**9,190**	(8,212)
Cash generated from operations	**23,330**	10,369
People's Republic of China Enterprise Income Tax paid	**(2,324)**	–
NET CASH FROM OPERATING ACTIVITIES	**21,006**	10,369

Consolidated Statement of Cash Flows

For the year ended 31 December 2010

	2010 RMB'000	2009 RMB'000
INVESTING ACTIVITIES		
Proceeds on disposal of property, plant and equipment	**87**	–
Interests received	**35**	23
Purchases of property, plant and equipment	**(7,880)**	(629)
Repayments from related parties	**–**	1,045
Consideration paid for the acquisition of a subsidiary under common control, net of bank balances and cash acquired of RMB67,000	**–**	(8,184)
NET CASH USED IN INVESTING ACTIVITIES	**(7,758)**	(7,745)
FINANCING ACTIVITIES		
New bank borrowings raised	**7,953**	15,301
Repayments of bank borrowings	**(7,953)**	(15,223)
Consideration paid for acquisition of an additional interests in a subsidiary from non-controlling shareholder	**(3,525)**	–
Repayments to controlling shareholders	**(2,983)**	(79)
Repayment to a related party	**(393)**	–
Interest paid	**(180)**	(229)
Proceeds from issue of share capital, net of issuing expenses	**–**	13,572
NET CASH (USED IN) FROM FINANCING ACTIVITIES	**(7,081)**	13,342
NET INCREASE IN CASH AND CASH EQUIVALENTS	**6,167**	15,966
CASH AND CASH EQUIVALENTS AT 1 JANUARY	**19,877**	3,911
CASH AND CASH EQUIVALENTS AT 31 DECEMBER, represented by bank balances and cash	**26,044**	19,877

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

1. GENERAL INFORMATION

Jiangchen International Holdings Limited (the "Company") is a public limited company incorporated in the Cayman Islands and its shares are 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 the 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 and investment holding.

The directors of the Company 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（蔡水泳）("Mr. Cai SY") and Mr. Cai Shuiping（蔡水平）("Mr. Cai SP") are the ultimate controlling shareholders.

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 then subsidiaries now comprising the Group. Details of the Reorganisation are set out in the prospectus of the Company dated 29 September 2009.

Subsequent to the Reorganisation, Sino Prosper (Asia) Limited ("Sino Prosper"), a wholly-owned subsidiary of the Company, acquired 70% of the equity interests in Jiangxi Hongfeng Textile Company Limited ("Hongfeng Textile") from Hong Feng International Holdings Limited ("Hong Feng International") on 7 December 2009. The acquisition was accounted for using merger accounting under common control combination as the Company and Hongfeng Textile are both under the control of Mr. Cai SY and Mr. Cai SP. Accordingly, these consolidated 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 Hongfeng Textile first came under the control of Mr. Cai SY and Mr. Cai SP in March 2009. Details of the acquisition are set out in the announcement issued by the Company dated 2 December 2009.

On 5 March 2010, Sino Prosper acquired the remaining 30% of the equity interests in Hongfeng Textile from Hong Feng International at cash consideration of approximately RMB3,525,000. Since then, Hongfeng Textile became a wholly-owned subsidiary of the Group. Details of the acquisition are set out in the circular issued by the Company dated 13 January 2010.

The consolidated financial statements are presented in thousands of units of Renminbi ("RMB") which is also as the functional currency of the Group.

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

Application of new and revised standards and interpretations

In the current year, the Group has applied the following new and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by the HKICPA.

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs 2008
HKFRSs (Amendments)	Improvements to HKFRSs 2009
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 39 (Amendment)	Eligible Hedged Items
HKFRS 1 (Revised)	First-time Adoption of HKFRSs
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions
HKFRS 3 (Revised)	Business Combinations
HK- Interpretation ("Int") 5	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause
HK(IFRIC)- Int 17	Distributions of Non-cash Assets to Owners

HKFRS 3 (Revised 2008) Business Combinations

The Group applies HKFRS 3 (Revised) Business Combinations prospectively to business combinations for which the acquisition date is on or after 1 January 2010. As there was no transaction during the current year in which HKFRS 3 (Revised) is applicable, the application of HKFRS 3 (Revised) and the consequential amendments to other HKFRSs had no effect on the consolidated financial statements of the Group for the current or prior accounting periods.

Results, of the Group in future periods, may be affected by future transactions for which HKFRS 3 (Revised) and the consequential amendments to the other HKFRSs are applicable.

HKAS 27 (Revised 2008) Consolidated and Separate Financial Statements

In prior years, there are no specific requirements in HKFRSs regarding changes in ownership interests in existing subsidiaries. Under HKAS 27 (Revised 2008), all increases or decreases in such interests that do not result in the Group losing control over the subsidiaries are dealt with in equity, with no impact on goodwill or profit or loss.

For the additional 30% of the equity interests in Hongfeng Textile acquired during the year, the Group has applied HKAS 27 (Revised 2008) the first time. Under the revised standard, the difference of approximately RMB1,659,000 between the consideration of approximately RMB3,525,000 and the carrying value of the equity interests acquired of approximately RMB1,866,000 has been recognised in other reserves within equity.

The application of HKAS 27 (Revised 2008) has not resulted in changes in the Group's accounting policies as this is the first time the Group enters into relevant transaction.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

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

Amendment to HKAS 17 Leases

As part of Improvements to HKFRSs issued in 2009, HKAS 17 Leases has been amended in relation to the classification of leasehold land. Before the amendment to HKAS 17, the Group was required to classify leasehold land as operating leases and to present leasehold land as prepaid lease payments in the consolidated statement of financial position. The amendment to HKAS 17 has removed such a requirement. The amendment requires that the classification of leasehold land should be based on the general principles set out in HKAS 17, that is, whether or not substantially all the risks and rewards incidental to ownership of a leased asset have been transferred to the lessee.

In accordance with the transitional provisions set out in the amendment to HKAS 17, the Group reassessed the classification of unexpired leasehold land as at 1 January 2010 based on information that existed at the inception of the leases. The application of amendment to HKAS 17 had no material effect on the consolidated financial statements.

The application of the other new and revised HKFRSs had no effect on the consolidated financial statements of the Group for the current or prior accounting periods.

New and revised standards and interpretations issued but not yet effective

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

HKFRSs (Amendments)	Improvements to HKFRSs 2010 except for the amendments to HKFRS 3 (Revised in 2008), HKFRS 7, HKAS 1 and HKAS 28[1]
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[3]
HKFRS 1 (Amendment)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters[5]
HKFRS 7 (Amendments)	Disclosures –Transfers of Financial Assets[5]
HKFRS 9	Financial Instruments[7]
HKAS 12 (Amendment)	Deferred Tax : Recovery of Underlying Assets[6]
HKAS 24 (Revised)	Related Party Disclosures[4]
HKAS 32 (Amendment)	Classification of Rights Issues[2]
HK(IFRIC)-Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement[4]
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments[3]

1 Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate
2 Effective for annual periods beginning on or after 1 February 2010
3 Effective for annual periods beginning on or after 1 July 2010
4 Effective for annual periods beginning on or after 1 January 2011
5 Effective for annual periods beginning on or after 1 July 2011
6 Effective for annual periods beginning on or after 1 January 2012
7 Effective for annual periods beginning on or after 1 January 2013

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

HKFRS 9 Financial Instruments issued in November 2009 and amended in October 2010 introduces new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition.

- HKFRS 9 requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

- The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was recognised in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors of the Company anticipate that HKFRS 9 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new standard will have a significant impact on amounts reported in respect of the Group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

The amendments to HKFRS 7 titled Disclosures – Transfers of Financial Assets increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period. To date, the Group has not entered into transactions involving transfers of financial assets. However, if the Group enters into any such transactions in the future, disclosures regarding those transfers may be affected.

HKAS 24 Related Party Disclosures (as revised in 2009) modifies the definition of a related party and simplifies disclosures for government-related entities. The disclosure exemptions introduced in HKAS 24 (as revised in 2009) do not affect the Group because the Group is not a government-related entity.

The amendments to HKAS 32 titled Classification of Rights Issues address the classification of certain rights issues denominated in a foreign currency as either an equity instrument or as a financial liability. To date, the Group has not entered into any arrangements that would fall within the scope of the amendments. However, if the Group does enter into any rights issues within the scope of the amendments in future accounting periods, the amendments to HKAS 32 will have an impact on the classification of those rights issues.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

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

The amendments to HK(IFRIC)-Int 14 require entities to recognise as an economic benefit any prepayment of minimum funding requirement contributions. As the Group has no defined benefit scheme, the amendments are unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 19 provides guidance regarding the accounting for the extinguishment of a financial liability by the issue of equity instruments. To date, the Group has not entered into transactions of this nature. However, if the Group does enter into any such transactions in the future, HK(IFRIC)-Int 19 will affect the required accounting. In particular, under HK(IFRIC)-Int 19, equity instruments issued under such arrangements will be measured at their fair value, and any difference between the carrying amount of the financial liability extinguished and the fair value of equity instruments issued will be recognised in profit or loss.

The directors of the Company anticipate that the application of other new and revise standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in the exchange for goods.

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 and 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 in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of consolidation (Continued)

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Prior to 1 January 2010, losses applicable to the non-controlling interests in excess of the non-controlling interests in the subsidiary's equity were allocated against the interests of the Group except to the extent that the non-controlling interests had a binding obligation and were able to make an additional investment to cover the losses.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

Merger accounting for business combination involving entities under common control

Applying merger accounting in accordance with Accounting Guideline 5 Merger Accounting for Common Control Combinations

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 consolidated 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. 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, if any.

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. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Construction in progress includes property, plant and equipment in the course of construction for production or for administrative purpose. Construction in progress which includes construction costs 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Prepaid lease payments

Prepaid lease payments are up-front payments to acquire leasehold land interests that are accounted for as an operating lease. 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.

Leasing

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

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 under the heading of the translation reserve.

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 are charged as an expense when employees have rendered services entitling them to the contributions.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 the 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 liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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 realised, 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 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.

Inventories

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

Cash and cash equivalents

Bank balances and cash in the consolidated statement of financial position comprise cash at banks and on hand. For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash as defined above.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

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 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).

Impairment loss on financial assets

Financial assets are assessed for indicators of impairment at the end of the 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
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

Impairment loss on financial assets (Continued)

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.

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, 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 is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

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.

Financial liabilities and equity instruments

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial liabilities and equity instruments (Continued)

Other financial liabilities

Other financial liabilities including trade and other payables, amounts due to controlling shareholders, amount due to a related party 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. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received. On derecognition of a financial asset in its entirety, 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 in other comprehensive income is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset or retains a residual interest that does not result in the retention of substantially all the risks and rewards of ownership and the Group retains control), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment losses on tangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible 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.

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) 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 (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately in profit or loss.

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

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.

(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 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. As at 31 December 2010, the carrying amount of trade receivable is approximately RMB25,758,000 (net of allowance for doubtful debts of approximately RMB100,000) (2009: carrying amount of approximately RMB25,791,000, net of allowance for doubtful debts of nil).

(c) Estimated impairment of property, plant and equipment and prepaid lease payments

The management of the Group determines whether the property, plant and equipment and prepaid lease payments are impaired, at least on an annual basis. The impairment loss for property, plant and equipment and prepaid lease payments 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 and prepaid lease payments have been determined based on value-in-use calculations. These calculations require the use of estimates such as the future revenue and discount rates. As at 31 December 2010, the carrying amounts of property, plant and equipment and prepaid lease payments are RMB16,506,000 (2009: RMB9,678,000) and RMB7,404,000 (2009: RMB7,565,000) respectively.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

(d) 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. As at 31 December 2010, the carrying amount of inventories is RMB13,794,000 (2009: RMB7,514,000).

5. 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 Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debt, which includes secured bank borrowings disclosed in Note 24 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.

6. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2010 **RMB'000**	2009 RMB'000
Loan and receivables (including bank balances and cash)	**51,802**	45,668
Financial liabilities at amortised cost	**9,377**	8,793

Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, bank balances and cash, trade and other payables, amounts due to controlling shareholders, amount due to a related party 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.

6. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (Continued)

(i) Currency risk

One of the subsidiaries of the Company has foreign currency sales, which exposes the Group to foreign currency risk. Approximately 4% of the Group's sales are denominated in currencies other than the functional currency of the group entity making the sale, whilst all costs are denominated in the group entity's functional currency.

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

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:

	2010		2009	
	United States Dollars ("USD")'000	**Hong Kong Dollars ("HKD")'000**	USD'000	HKD'000
Assets	**–**	**3,993**	694	15,729

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.

Sensitivity analysis

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

The following table details the Group's sensitivity to a 5% (2009: 5%) increase and decrease in RMB against the relevant foreign currencies. 5% (2009: 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% (2009: 5%) change in foreign currency rates. A positive number below indicates a decrease in post-tax profit where RMB strengthen 5% (2009: 5%) against the relevant currency. For a 5% (2009: 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.

	USD Impact		**HKD Impact**	
	2010 RMB'000	2009 RMB'000	**2010 RMB'000**	2009 RMB'000
Profit or loss	**–**	237	**176**	691

This is mainly attributable to the exposure to outstanding USD receivables and HKD bank balances not subject to cash flow hedges at the end of reporting period.

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6. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (Continued)

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank borrowings (see Note 24 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.

(iii) Credit risk

As at 31 December 2010, 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 high credit ratings.

The Group has concentration of credit risk as 40% (2009: 49%) and 86% (2009: 82%) of the total trade receivables was due from the Group's largest customer and the five largest customers, within the manufacturing and wholesaling of original equipment manufacturing ("OEM") products segments.

The Group's concentration of credit risk by geographical location is mainly in the PRC, which accounted for 100% (2009: 83%) of the total trade receivables as at the end of reporting period.

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 funding and considers the risk is minimal.

6. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (Continued)

(iv) Liquidity risk (Continued)

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.

Liquidity tables

	Weighted average interest rate	Total undiscounted cash flows and due within one year RMB'000	Carrying amounts RMB'000
2010			
Non-derivative financial liabilities			
Trade and other payables	**–**	**7,377**	**7,377**
Secured bank borrowings	**6.90%**	**2,066**	**2,000**
		9,443	**9,377**
2009			
Non-derivative financial liabilities			
Trade and other payables	–	3,417	3,417
Amounts due to controlling shareholders	–	2,983	2,983
Amount due to a related party	–	393	393
Secured bank borrowings	5.31%	2,040	2,000
		8,833	8,793

(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.

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7. 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.

8. SEGMENT INFORMATION

In prior years, the Group has only one operating segment, manufacturing and wholesaling of apparels, whose operating results were 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, no segment revenue, results, assets and liabilities for prior years are presented.

During the year, with the acquisition of additional 30% equity interests in Hongfeng Textile (Note 31(c)), the Group changes the structure of internal organisation which results in redesignation of its operating segments. Under the new structure of internal organisation, the information reported to the Chief Executive Officer is analysed based on the types of goods sold, including (i) manufacturing and wholesaling of OEM products and (ii) manufacturing and sales of branded products ("Brand business").

Information regarding the above segments for the year ended 31 December 2010 is presented below.

Segment revenues and results

The following is an analysis of the Group's revenue and results by reportable segment for the year ended 31 December 2010:

	Manufacturing and wholesaling of OEM products RMB'000	Brand business RMB'000	Total RMB'000
Revenue	**173,660**	**28,572**	**202,232**
Segment results	**25,275**	**3,519**	**28,794**
Other operating income			**35**
Central administrative costs			**(1,943)**
Finance costs			**(180)**
Profit before tax			**26,706**

The accounting policies of the reportable segments are the same as the Group's accounting policies described in Note 3. Segment results represent the results from each segment without allocation of central administrative costs including directors' salaries, other operating income, finance costs and income tax expense. This is the measure reported to the Chief Executive Officer for the purposes of resource allocation and assessment of segment performance.

8. SEGMENT INFORMATION (CONTINUED)

Segment assets and liabilities

The segment assets and liabilities at 31 December 2010 by reportable segment are as follows:

	Manufacturing and wholesaling of OEM products RMB'000	Brand business RMB'000	Total segment RMB'000	Unallocated RMB'000	Total RMB'000
Segment assets	62,457	8,833	71,290	26,104	97,394
Segment liabilities	11,546	1,008	12,554	3,829	16,383

For the purposes of monitoring segment performance and allocating resources between segments:

– all assets are allocated to reportable segments other than bank balances and cash and other assets for corporate use which including other receivables; and

– all liabilities are allocated to reportable segments other than secured bank borrowings, tax liabilities and other payables for corporate use.

Other segment information
For the year ended 31 December 2010

	Manufacturing and wholesaling of OEM products RMB'000	Brand business RMB'000	Total RMB'000
Amounts included in the measure of segment results or segment assets			
Addition to non-current assets	7,627	253	7,880
Depreciation of property, plant and equipment	717	149	866
Amortisation of prepaid lease payments	155	6	161
Impairment loss recognised in respect of trade receivables	100	–	100
Loss on disposal of property, plant and equipment	99	–	99
Amounts regularly provided to Chief Executive Officer but not included in the measure of segment results			
Interest expense	111	69	180
Income tax expense	3,178	447	3,625

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8. SEGMENT INFORMATION (CONTINUED)

Revenue from major products

The following is an analysis of the Group's revenue from its major products:

	2010	2009
	RMB'000	RMB'000
OEM products	**173,660**	132,750
Brand products	**28,572**	13,253
	202,232	146,003

Geographical information

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

	2010	2009
	RMB'000	RMB'000
Hong Kong	**–**	10,199
PRC (excluding Hong Kong)	**193,839**	127,421
Others	**8,393**	8,383
	202,232	146,003

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.

8. SEGMENT INFORMATION (CONTINUED)

Information about major customers

Revenues from customers of the corresponding years contributing over 10% of the total sales of the Group are as follows:

	2010 **RMB'000**	2009 RMB'000
Customer A	**45,004**	59,818
Customer B	**28,879**	21,359
Customer C	**33,013**	18,167
Customer D	**35,533**	N/A[1]
Customer E	**22,838**	N/A[1]
	165,267	99,344

[1] The corresponding revenue did not contribute over 10% of the total sales of the Group in the respective year

9. OTHER OPERATING INCOME

	2010 **RMB'000**	2009 RMB'000
Written off of long outstanding payables	**–**	393
Bank interest income	**35**	23
	35	416

10. FINANCE COSTS

	2010 **RMB'000**	2009 RMB'000
Interest on bank borrowings wholly repayable within one year	**180**	246

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11. INCOME TAX EXPENSE

Hong Kong Profits Tax has not been provided for in the consolidated financial statements as there were no assessable profits derived from Hong Kong for both years.

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.

Under the Law of the PRC 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.

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.

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

	2010 **RMB'000**	2009 RMB'000
Profit before tax	**26,706**	15,698
Tax expense at rates applicable to profits in the countries concerned	**7,181**	4,134
Tax effect of expenses not deductible for tax purpose	**80**	20
Tax effect of tax exemption granted to PRC subsidiaries	**(3,636)**	(4,154)
Income tax expense for the year	**3,625**	–

11. INCOME TAX EXPENSE (CONTINUED)

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to approximately RMB58,827,000 (2009: RMB33,731,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

12. PROFIT FOR THE YEAR

	2010	2009
	RMB'000	RMB'000
Profit for the year has been arrived at after charging:		
Directors' emoluments (Note 13)	**203**	164
Other staff costs	**23,887**	19,672
Retirement benefits scheme contributions, excluding directors	**7,745**	4,421
Total staff costs	**31,835**	24,257
Amortisation of prepaid lease payments	**161**	132
Impairment loss recognised in respect of trade receivables	**100**	–
Auditors' remuneration	**528**	484
Cost of inventories recognised	**169,325**	125,909
Depreciation of property, plant and equipment	**866**	713
Exchange loss	**78**	57
Loss on disposal of property, plant and equipment	**99**	–
Operating lease rental paid in respect of rented premises	**87**	132

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13. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors

The emoluments paid or payable to each of the five (2009: 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 2010				
Executive director:				
Mr. Cai SY (蔡水泳)	**–**	**60**	**5**	**65**
Mr. Cai SP (蔡水平)	**–**	**60**	**–**	**60**
Independent non-executive director:				
Mr. Lin Anqing (林安慶)	**26**	**–**	**–**	**26**
Ms. Lin Peifen (林佩芬)	**26**	**–**	**–**	**26**
Mr. Liu Jianlin (劉建林)	**26**	**–**	**–**	**26**
Total	**78**	**120**	**5**	**203**

	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 (蔡水泳)	–	60	3	63
Mr. Cai SP (蔡水平)	–	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

13. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (CONTINUED)

(b) Employees

Of the five individuals with the highest emoluments in the Group, two (2009: two) were directors of the Company whose emoluments are included in the disclosures in Note 13(a) above. The emoluments of the remaining three (2009: three) individuals were as follows:

	2010 RMB'000	2009 RMB'000
Salaries and other allowances	**285**	178
Retirement benefits scheme contributions	**10**	7
	295	185

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

During the years ended 31 December 2009 and 2010, 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 of the Company waived any emolument during the years ended 31 December 2009 and 2010.

14. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to owners of the Company of approximately RMB23,089,000 (2009: RMB15,702,000) and the weighted average number of shares in issue during the year of 370,000,000 (2009: 370,000,000). The weighted average number of shares in issue during the year ended 31 December 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.

The dilutive earnings per share are the same as the basic earnings per share for the years ended 31 December 2009 and 2010 as there were no dilutive potential ordinary shares outstanding during both years.

15. DIVIDEND

No dividend was paid, declared or proposed during the years ended 31 December 2009 and 2010.

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16. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Machinery	Office equipment, furniture and fixtures	Leasehold improvement	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST						
At 1 January 2009	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
Additions	–	1,162	97	132	6,489	7,880
Transfer	5,839	–	–	–	(5,839)	–
Disposals	–	(346)	–	–	–	(346)
At 31 December 2010	14,480	3,499	208	717	650	19,554
ACCUMULATED DEPRECIATION						
At 1 January 2009	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
Provided for the year	440	287	27	112	–	866
Eliminated on disposals	–	(160)	–	–	–	(160)
At 31 December 2010	1,512	1,225	94	217	–	3,048
CARRYING VALUES						
At 31 December 2010	12,968	2,274	114	500	650	16,506
At 31 December 2009	7,569	1,585	44	480	–	9,678

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

16. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The above items of property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives and after taking into account of their estimated residual value. 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

17. PREPAID LEASE PAYMENTS

	2010 **RMB'000**	2009 RMB'000
Analysed for reporting purposes as:		
Current asset	**161**	161
Non-current asset	**7,243**	7,404
	7,404	7,565
The Group's prepaid lease payments comprise:		
Leasehold land in the PRC under medium-term lease	**7,404**	7,565

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

18. INVENTORIES

	2010 **RMB'000**	2009 RMB'000
Raw materials	**3,738**	1,629
Work-in-progress	**3,559**	1,093
Finished goods	**6,497**	4,792
	13,794	7,514

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19. TRADE AND OTHER RECEIVABLES

	2010 RMB'000	2009 RMB'000
Trade receivables	**25,858**	25,791
Less: allowance for doubtful debts	**(100)**	–
	25,758	25,791
Prepayment for goods	**7,704**	298
Other receivables	**184**	–
	33,646	26,089

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 following is an aged analysis of trade receivables net of allowance for doubtful debts presented based on the invoice date at the end of the reporting period:

	2010 RMB'000	2009 RMB'000
0 – 90 days	**25,758**	18,282
91 – 180 days	**–**	7,429
181 – 365 days	**–**	15
Over 365 days	**–**	65
Total	**25,758**	25,791

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. The Group does not hold any collateral over these balances.

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 (see below for aged analysis), the directors of the Company consider that no allowance is required. The Group does not hold any collateral over these balances.

19. TRADE AND OTHER RECEIVABLES (CONTINUED)

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

	Total	Neither past due nor impaired	Past due but not impaired		
			<90 days	**91 – 180 days**	**181 – 365 days**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
2009	25,791	25,711	–	17	63
2010	25,758	25,758	–	–	–

Movement in the allowance for doubtful debts

	2010 **RMB'000**	2009 RMB'000
1 January	**–**	–
Impairment losses recognised on receivables	**100**	–
31 December	**100**	–

Included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of RMB100,000 (2009: Nil) which have been overdue by more than one year. The Group does not hold any collateral over these balances.

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:

	2010 **'000**	2009 '000
USD	**–**	644

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20. BANK BALANCES AND CASH

At 31 December 2010, the Group's bank balances and cash denominated in RMB amounted to approximately RMB22,529,000 (2009: RMB5,695,000). 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 0.31% (2009: 0.11%) 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:

	2010 '000	2009 '000
USD	**–**	50
HKD	**3,993**	15,729

21. TRADE AND OTHER PAYABLES

	2010 RMB'000	2009 RMB'000
Trade payables	**4,019**	1,830
Receipt in advance	**4,065**	–
Other payables	**4,998**	2,062
	13,082	3,892

The credit period on purchase of goods ranges from 45 to 90 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe. As at 31 December 2010, all trade payables are aged within 30 days (2009: within 30 days) based on the invoice date at the end of the reporting date.

22. AMOUNTS DUE TO CONTROLLING SHAREHOLDERS

The amounts are unsecured, non-interest bearing and repayable on demand. The amounts have been fully repaid during the year.

23. AMOUNT DUE TO A RELATED PARTY

	2010	2009
	RMB'000	RMB'000
Non-trading in nature		
Cai's International Holdings Limited ("Cai's International")	**–**	393

Mr. Cai SY and Mr. Cai SP have beneficial interests in Cai's International.

The amount is unsecured, non-interest bearing and repayable on demand. The amount has been fully repaid during the year.

24. SECURED BANK BORROWINGS

	2010	2009
	RMB'000	RMB'000
Bank borrowings due within one year	**2,000**	2,000

The bank borrowings carry fixed interest rates of 6.90% (2009: 5.31%) per annum for the year.

At 31 December 2009 and 2010, the bank borrowings are secured by certain assets of the Group as set out in Note 29.

At 31 December 2009, there are unutilised banking facilities of RMB3,000,000 secured by:

- certain assets of the Group as set out in Note 29;
- land and buildings owned by an independent third party, Wannian Meiling Apparel and Knitting Co., Ltd. (萬年縣美嶺服飾織造有限公司) ("Meiling"), a company wholly-owned by one of the Group's customers ("Secured Land and Buildings") ; and
- personal guarantee provided by Mr. Cai SY and Mr. Cai SP ("Personal Guarantee").

24. SECURED BANK BORROWINGS (CONTINUED)

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 the year, the Secured Land and Buildings and Personal Guarantee have been released and there are no unutilised facilities amount as at 31 December 2010.

25. SHARE CAPITAL

As the Company was not yet incorporated prior to 1 January 2009 and the Reorganisation was not completed as at 1 January 2009, the share capital in the consolidated statement of changes in equity as at 1 January 2009 represented the combined paid-in capital of the then 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:

	Notes	**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 and 31 December 2010		0.01	1,000,000,000	10,000

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 2010 is as follows:

	Notes	**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 and 31 December 2010		0.01	370,000,000	3,700	3,256

25. SHARE CAPITAL (CONTINUED)

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 totaling 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.

26. RETIREMENT BENEFIT SCHEME

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 RMB7,750,000 (2009: RMB4,426,000) represents contributions payable to these scheme 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.

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27. 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:

	2010 **RMB'000**	2009 RMB'000
Within one year	**48**	57
In the second to fifth year inclusive	**125**	91
	173	148

As at 31 December 2010, included in the above is commitment under non-cancellable operating leases of approximately RMB91,200 (2009: RMB120,000) which will expire in 2014 payable to Mr. Tsoi Kam On (蔡金銨), the brother of Mr. Cai SY.

28. CAPITAL COMMITMENTS

	2010 **RMB'000**	2009 RMB'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of the acquisition of:		
– Property, plant and equipment	**250**	3,203
– Interest in a subsidiary (Note)	**–**	3,500
	250	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 interests in Hongfeng Textile for a consideration of approximately RMB3.5 million. The acquisition is approved by independent shareholders in the Company's extraordinary general meeting held on 28 January 2010.

29. PLEDGE OF ASSETS

The Group had pledged certain of its buildings, prepaid lease payments and machineries 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:

	2010	2009
	RMB'000	RMB'000
Buildings	**–**	7,569
Prepaid lease payments	**5,415**	7,565
Machineries	**–**	1,078
	5,415	16,212

30. SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme") was adopted pursuant to a written resolution passed on 15 September 2009 for the primary purpose of providing incentives and rewards to directors and eligible participants. Since the Scheme has been adopted, no share option has been granted, exercised or cancelled by the Company. As at 31 December 2010, there are no outstanding share options under the Scheme (2009: Nil).

31. RELATED PARTY TRANSACTIONS

Except as disclosed elsewhere in the consolidated financial statements, the Group entered into the following significant related party transactions during the year:

(a) Rental expenses incurred

		2010	2009
	Notes	**RMB'000**	RMB'000
Hongfeng Textile	(i)	**–**	36
Mr. Tsoi Kam On (蔡金銨)	(ii)	**29**	29

Notes:

(i) The rental expense for the year ended 31 December 2009 was incurred before Hongfeng Textile was combined into the Group since March 2009 as disclosed in Note 1.

(ii) Mr. Tsoi Kam On (蔡金銨) is the brother of Mr. Cai SY. In the opinion of the directors of the Company, the transactions were conducted on normal commercial terms and in the ordinary course of business.

Notes to the Consolidated Financial Statements

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31. RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Remuneration of directors and other members of key management

	2010 **RMB'000**	2009 RMB'000
Salaries and other allowances	**318**	318
Retirement benefits scheme contributions	**21**	18
	339	336

(c) Acquisition of 30% additional equity interests in Hongfeng Textile

As 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 with Hong Feng International, a company owned by Mr. Cai SY and Mr. Cai SP as to 50% each. Pursuant to the agreement, Sino Prosper agreed to purchase from and Hong Feng International agreed to dispose of 30% additional equity interests in Hongfeng Textile for a consideration in cash of approximately RMB3.525,000. On 28 January 2010, approval of the acquisition was obtained from the independent shareholders in the Company's extraordinary general meeting. The acquisition was completed on 5 March 2010 and Hongfeng Textile became a wholly-owned subsidiary of the Group.

The carrying value of the additional equity interests acquired was approximately RMB1,866,000. The difference of approximately RMB1,659,000 between the consideration and the carrying value of the equity interests acquired has been recognised in other reserves within equity.

32. THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Notes	**2010** **RMB'000**	2009 RMB'000
Non-current asset			
Investment in a subsidiary		**325**	325
Current assets			
Other receivables		**60**	–
Amount due from a subsidiary	(a)	**9,017**	1,665
Bank balances and cash		**2,761**	12,115
		11,838	13,780
Current liabilities			
Other payables		**528**	510
Amounts due to controlling shareholders	(a)	**–**	28
Amount due to a subsidiary	(a)	**507**	507
		1,035	1,045
Net current assets		**10,803**	12,735
Total assets less current liabilities		**11,128**	13,060
Capital and reserves			
Share capital		**3,256**	3,256
Reserves	(b)	**7,872**	9,804
Total equity		**11,128**	13,060

Notes:

(a) Amount due from a subsidiary / amounts due to controlling shareholders and a subsidiary are unsecured, non-interest bearing and repayable on demand. The amounts due to controlling shareholders have been fully repaid during the year.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

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

(b) 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)
Shares issuing expenses	(6,161)	–	(6,161)
Loss for the period	–	(838)	(838)
At 31 December 2009	10,642	(838)	9,804
Loss for the year	–	(1,932)	(1,932)
At 31 December 2010	10,642	(2,770)	7,872

33. SUBSIDIARIES

Details of the subsidiaries at 31 December 2009 and 2010, are as follows:

Name of company	Place of incorporation/ establishment/ operations	Class of shares held	Equity interest attributable to the Group				Capital contributed by the Group		Principal activities	
			Direct		Indirect					
			2010	2009	**2010**	2009	**2010**	2009	**2010**	2009
Newshine International 新光國際有限公司	BVI	Ordinary	**100%**	100%	**-**	–	**USD 1**	USD 1	**Investment holding**	Investment holding
Sino Prosper 華盛(亞洲)有限公司	Hong Kong	Ordinary	**-**	–	**100%**	100%	**HK$1**	HK$1	**Investment holding**	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%**	100%	**HK$3,200,000**	HK$3,200,000	**Manufacturing and wholesaling of apparels**	Manufacturing and wholesaling of apparels
Wan Nian County Xiang Yun Fibers and Fabrics Co., Ltd. #* 萬年縣祥雲纖維紡織有限公司	The PRC	Contributed Capital	**-**	–	**100%**	100%	**USD1,300,000**	USD1,300,000	**Manufacturing and wholesaling of apparels**	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%**	100%	**USD1,300,000**	USD1,300,000	**Manufacturing and wholesaling of apparels**	Manufacturing and wholesaling of apparels
Hongfeng Textile 江西泓峰紡織有限公司	The PRC	Contributed Capital	**-**	–	**100%**	70%	**RMB13,779,899**	RMB6,258,390	**Manufacturing and wholesaling of apparels**	Inactive and holding a land use right

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

* For identification purpose only.

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

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34. EVENTS AFTER THE REPORTING PERIOD

As mentioned in the announcement issued by the Company dated 10 February 2011, the directors of the Company are considering the possibility for the transfer (the "Transfer") of listing of the Company's shares from the Growth Enterprise Market to the Main Board of the Stock Exchange. As at the date of the consolidated financial statements were approved and authorised for issue, no application has been made to the Stock Exchange for the Transfer.