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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 01069)

Annual Report
2011

CONTENTS

CORPORATE INFORMATION

EXECUTIVE DIRECTORS

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Shen Guoquan (Appointed on 30 March 2011)
Ms. Chan Ling (Appointed on 30 March 2011)
Mr. Liu Jianlin
Mr. Lin Anqing (Resigned on 30 March 2011)
Ms. Lin Peifen (Resigned on 30 March 2011)

AUDIT COMMITTEE

Mr. Liu Jianlin *(Chairman)*
Mr. Shen Guoquan (Appointed on 30 March 2011)
Ms. Chan Ling (Appointed on 30 March 2011)
Mr. Lin Anqing (Resigned on 30 March 2011)
Ms. Lin Peifen (Resigned on 30 March 2011)

REMUNERATION COMMITTEE

Ms. Chan Ling *(Chairman)* (Appointed on 30 March 2011)
Mr. Cai Shuiyong
Mr. Shen Guoquan (Appointed on 30 March 2011)
Mr. Lin Anqing (Resigned on 30 March 2011)
Ms. Lin Peifen (Resigned on 30 March 2011)

NOMINATION COMMITTEE

Ms. Chan Ling *(Chairman)* (Appointed on 30 March 2011)
Mr. Cai Shuiyong
Mr. Shen Guoquan (Appointed on 30 March 2011)
Mr. Lin Anqing (Resigned on 30 March 2011)
Ms. Lin Peifen (Resigned on 30 March 2011)

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

Suites 2001-2005, 20th Floor
Jardine House
1 Connaught Place
Central
Hong Kong

HEAD OFFICE IN THE PEOPLE'S REPUBLIC OF CHINA

Level 4, No. 20
Zheng Da Street
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
KY1-1108
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.com

STOCK CODE

01069 (since 16 May 2011)
08305 (before 13 May 2011)

FINANCIAL HIGHLIGHTS

ANNUAL RESULTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

- Turnover for the financial years ended 31 December 2011 amounting to RMB 184.8 million (2010: RMB 202.2 million), representing a decrease of 8.6 % as compared with corresponding period in 2010.

- Profit and total comprehensive income attributable to owners of the Company for the financial year ended 31 December 2011 amounted to RMB0.4 million (2010: RMB 23.1 million), representing a decrease of 98.3 % as compared with corresponding period in 2010.

- Basic and diluted earnings per share for the financial year ended 31 December 2011 amounted to RMB 0.11 cents (2010: RMB 6.24 cents).

- The Board does not recommend the payment of a final dividend for the financial year ended 31 December 2011 (2010: nil).

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 2011.

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.

BUSINESS REVIEW

The Group is principally engaged in the manufacturing and wholesaling of apparels on an original equipment manufacturing ("OEM") basis in the People's Republic of China ("China" or the "PRC"). The apparels produced by the Group can be broadly categorized into cotton and sweat jacket, sportswear and leisurewear, trousers and children garment.

On 21 March 2011, an application was made by the Company to the Stock Exchange of Hong Kong Limited (the "Stock Exchange") for the transfer of listing of the Company's shares ("Shares") from the Growth Enterprise Market (the "GEM") to the Main Board (the "Main Board") on the Stock Exchange. The Company has applied for the listing of, and permission to deal in, (i) the 370,000,000 Shares in issue; and (ii) the 37,000,000 Shares which may fall to be issued pursuant to the exercise of options which may be granted under the share option scheme of the Company, on the Main Board by way of transfer of listing from the GEM to the Main Board pursuant to the streamlined transfer of listing procedures under Chapter 9A of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). The approval-in-principle for the transfer of listing was granted by the Stock Exchange on 21 April 2011 for the Shares. The last day of dealings in the Company's Shares on the GEM (under stock code: 08305) was 13 May 2011.

On 16 May 2011, the Company has successfully transferred of the listing of its Shares from the GEM to the Main Board of the Stock Exchange and dealing in the Company's shares on the Main Board (under stock code: 01069) has been commenced since 16 May 2011. The listing of the Company's Shares on the Main Board will greatly enhance the corporate profile and image of the Group as well as improve the public awareness of the Company. Moreover, the directors of the Company (the "Directors") believe that such transfer of listing is beneficial to the future growth, financing flexibility as well as business development of the Group.

As at 31 December 2011, 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.

CHAIRMAN'S STATEMENT (continued)

Due to the decrease in the demand of the Group's OEM products from the domestic import and export companies, we recorded a turnover of RMB184.8 million for the year ended 31 December 2011, a 8.6% decrease as compared to RMB202.2 million for 2010. Profit and total comprehensive income attributable to shareholders of the Company, as a result of the decrease in the gross margin brought about by an increase in the direct labour cost and the increase in the administrative expenses, decreased significantly by 98.3% from RMB23.1 million for the year ended 31 December 2010 to RMB0.4 million for the year ended 31 December 2011.

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, 16 March 2012

BIOGRAPHICAL INFORMATION OF DIRECTORS AND SENIOR MANAGEMENT

BOARD OF DIRECTORS

Executive Directors

Mr. Cai Shuiyong (蔡水泳), aged 45, 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 extensive 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 55, 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 extensive 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 is also a director of Newshine and Sino Prosper. 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. Shen Guoquan (沈國權), aged 46, was appointed as an independent non-executive Director on 30 March 2011. He graduated from East China College of Political Science and Law (華東政法學院) with a master's degree in laws. Mr. Shen had been an assistant procurator of 上海市人民檢察院 (Shanghai People's Procuratorate) from 1986 to 1993, the cofounder and partner of上海市萬國律師事務所(Shanghai Wanguo Law Firm) from 1993 to 1995 and has been working for 上海天和律師事務所 (Shanghai Tianhe Law Firm) since 1996. In 1999, 上海天和律師事務所 (Shanghai Tianhe Law Firm) has been merged into 上海錦天城律師事務所 (Shanghai Allbright Law Offices) and Mr. Shen has been a senior partner of 上海錦天城律師事務所 (Shanghai Allbright Law Offices) since 1999.

Mr. Shen has been appointed as independent directors in 上海新華傳媒股份有限公司 (Shanghai Xinhua Media Co., Ltd.) (listed in Shanghai Stock Exchange, stock code: 600825) since February 2008, 東方財富信息股份有限公司 (East Money Information Co., Ltd.) (listed in Shenzhen Stock Exchange, stock code: 300059) and 浙江水晶光電科技股份有限公司 (Zhejiang Quartz Crystal Optoelectronic Technology Co., Ltd.) (listed in Shenzhen Stock Exchange, stock code: 002273) since April 2007.

Ms. Chan Ling (陳靈), aged 38, was appointed as an independent non-executive Director on 30 March 2011. She graduated from Macquarie University in Australia with a bachelor's degree in Commerce (Professional Accounting) in 1999 and from The University of Sydney in Australia with a master's degree in Commerce (Professional Accounting) in 2002. Ms. Chan is a member of the CPA Australia and a member of the Hong Kong Institute of Certified Public Accountants with over 12 years of experience in finance and accounting. Ms. Chan served as a financial controller and company secretary of China Photar Electronics Group Limited (stock code: 08220) (now known as Bingo Group Holdings Limited) from January 2007 to July 2007 and served as an accounting manager in China Travel Tours Transportation Development H.K. Ltd., a subsidiary of China Travel International Investment Hong Kong Limited (stock code: 00308) from January 2009 to March 2011. Ms. Chan is now serving as company secretary of China Tianyi Holdings Limited (stock code: 00756).

BIOGRAPHICAL INFORMATION OF DIRECTORS AND SENIOR MANAGEMENT (continued)

Mr. Liu Jianlin (劉建林), aged 42, was appointed as an independent non-executive Director on 15 September 2009. He graduated at Fuzhou University in 1993, majoring in packaging engineering. Mr. Liu passed the national examination of registered accountants in December 1996 and is a PRC registered accountant. He is currently a partner and the manager of the audit department of Fujian Da Zheng Accounting Firm.

SENIOR MANAGEMENT

Ms. Cai Shuyan (蔡淑燕), aged 44, 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 29, 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 40, 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 40, 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.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Jiangchen International Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") are principally engaged in the (i) manufacturing and wholesaling of apparels on an original equipment manufacturing ("OEM") basis and (ii) manufacturing and sales of branded products in the People's Republic of China ("China" or the "PRC"). The apparels produced by the Group can be broadly categorized into cotton and sweat jacket, sportswear and leisurewear, trousers and children garment.

On 21 March 2011, an application was made by the Company to the Stock Exchange of Hong Kong Limited (the "Stock Exchange") for the transfer of listing of the Shares from the Growth Enterprise Market (the "GEM") to the Main Board (the "Main Board") on the Stock Exchange. The Company has applied for the listing of, and permission to deal in, (i) the 370,000,000 Shares in issue; and (ii) the 37,000,000 Shares which may fall to be issued pursuant to the exercise of options which may be granted under the share option scheme of the Company, on the Main Board by way of transfer of listing from the GEM to the Main Board pursuant to the streamlined transfer of listing procedures under Chapter 9A of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). The approval-in-principle for the transfer of listing was granted by the Stock Exchange on 21 April 2011 for the Shares. The last day of dealings in the Company's Shares on the GEM (under stock code: 08305) was 13 May 2011.

On 16 May 2011, the Company has successfully transferred of the listing of its Shares from the GEM to the Main Board of the Stock Exchange and dealing in the Company's shares on the Main Board (under stock code: 01069) has been commenced since 16 May 2011. The listing of the Company's Shares on the Main Board will greatly enhance the corporate profile and image of the Group as well as improve the public awareness of the Company. Moreover, the directors of the Company (the "Directors") believe that such transfer of listing is beneficial to the future growth, financing flexibility as well as business development of the Group.

As at 31 December 2011, 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 factory, the annual production capacity of the Company has been increased by approximately 2,500,000 pieces of apparels.

FINANCIAL REVIEW

Turnover

During the financial year ended, the Company recorded a turnover of RMB184.8 million for the year ended 31 December 2011, a 8.6% decrease as compared to RMB202.2 million for 2010. Profit and total comprehensive income attributable to shareholders of the Company decreased by 98.3% from RMB23.1 million for the year ended 31 December 2010 to RMB0.4 million for the year ended 31 December 2011.

The turnover of the Company's OEM apparels sold to domestic import and export companies and overseas trading companies for export for the year ended 31 December 2011 was RMB148.6 million (for the year ended 31 December 2010: RMB173.7 million), which is 14.5% lower than that for the corresponding period in 2010.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

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 2011 was RMB36.2 million (for the year ended 31 December 2010: RMB28.6 million), which is 26.6% higher than that for the corresponding period in 2010.

In term of production mode, turnover of OEM products represent 80.4% of the total turnover (for the year ended 31 December 2010: 85.9%) while turnover of the brand products only account for 19.6% (for the year ended 31 December 2010: 14.1%).

Gross profit

The Group achieved a gross profit of approximately RMB12.9 million for the year ended 31 December 2011 (for the year ended 31 December 2010: RMB32.8 million), representing a decrease of 60.7% as compared to that for the corresponding period in 2010. Gross margin, calculated as gross profit divided by turnover, for the year ended 31 December 2011 amounted to 7.0% (2010: 16.2%). The decrease in gross margin in 2011 was mainly attributable to the increase in the direct labour cost.

Selling and distribution costs

The selling and distribution costs have been decreased from RMB1.8 million for the year ended 31 December 2010 to RMB1.1 million for the year ended 31 December 2011, representing a decrease of 38.9%. The decrease in selling and distribution costs was mainly attributable to the decrease of the marketing expenses as promoting the Company's brands and franchise shares.

Administrative expenses

The administrative expenses of the Company have been increased by 135.7% from approximately RMB4.2 million for the year ended 31 December 2010 to approximately RMB9.9 million for the year ended 31 December 2011. The increase in administrative expenses was mainly attributable to the increase in professional fees and a one off payment for the termination benefits of RMB2.9 million during the year ended 31 December 2011.

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 2011 is 73.2% (for the year ended 31 December 2010: 13.6%).

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 decreased significantly by 98.3% from approximately RMB23.1 million for the year ended 31 December 2010 to RMB0.4 million for the year ended 31 December 2011.

Basic earnings per share

Basic earnings per share for the year ended 31 December 2011 amounted to RMB0.11 cents (2010: RMB6.24 cents), representing an decrease of 98.2% as compared with corresponding period in 2010.

EMPLOYEES AND REMUNERATION POLICIES

During the year ended 31 December 2011, the Group has laid off certain staff which their work performance did not meet the Company's standards and incurred a one off payment for the termination benefit of RMB2.9 million. As at 31 December 2011, the Group had 1,096 (2010: 1,774) employees, including Directors. Total staff costs for the year under review, including Directors' remuneration and the termination benefits, amounted to approximately RMB40.7 million (2010: approximately RMB31.8 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 (the "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 2011, the Group had total assets of approximately RMB97.2 million and net assets of approximately RMB81.4 million. The Group's cash and bank balances as at 31 December 2011 amounted to approximately RMB32.9 million and secured bank borrowing amounted to RMB10.0 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 2010 and 2011, the Group had pledged certain of its buildings and leasehold lands to secure banking facilities granted to the Group. The carrying values of the assets pledged are as follows:

	2011 RMB'000	2010 RMB'000
Buildings	**10,228**	–
Leasehold lands	**6,405**	5,415
	16,633	5,415

CONTINGENT LIABILITIES

As at 31 December 2010 and 2011, 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, increased to 12.3% for the year under review (31 December 2010: 2.5%).

CAPITAL STRUCTURE

The capital of the Group comprises only ordinary shares. As at 31 December 2011, the total number of the ordinary shares of the Group in issue was 370,000,000 shares.

SIGNIFICANT INVESTMENT HELD AND MATERIAL ACQUISITIONS AND DISPOSALS

On 24 August 2011, the Company made an announcement regarding a possible acquisition with independent third parties. However, as at the date of this report, no definitive agreement has been reached.

Save as disclosed above, there were no significant investment held or material acquisitions and disposals of subsidiaries for the year ended 31 December 2011.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

The Group had no other future plans for material investments or capital assets as at 31 December 2011.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

An analysis comparing the business objectives as stated in the prospectus of the Company (the "Prospectus") with the Group's actual business progress for the period from 8 October 2009 (the "Listing Date") to 31 December 2011 is set out below:

	Business objectives for the period from the Listing Date to 31 December 2011 as stated in the Prospectus	Actual business progress up to 31 December 2011
1	Expansion of new product design capacity and brand building	• The research and development department has been in operation to conduct research on the latest market trend and demand of apparels. • Four research and development staff have been employed. • The Group has acquired two trademarks, namely 珍珠泉 (Zhen Zhu Quan) and 凱都 (Kai Du). • The Group has conducted advertising campaigns on promoting its brand in the PRC.
2	Expansion of production capacity	• The production of the new factory has been commenced in July 2010.
3	Expansion of sales and distribution channel	• The Group has employed three sales and marketing staff. • 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 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 2011, the net proceeds from issuance of new Shares of the Company had been applied as follows:

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

	Planned use of proceeds as stated in the Prospectus from the Listing Date to 31 December 2011 HK$'000	Actual use of proceeds from the date of listing to 31 December 2011 HK$'000
Expansion of new product design capacity and brand building	4,000	2,312
Expansion of production capacity	7,500	7,500
Expansion of sales and distribution channel	3,100	816

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 2011 are less than expected. The Directors expect that those business objectives will be revisited in 2012.

All the remaining proceeds as at 31 December 2011 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.

In consideration to the continuous appreciation of Renminbi, the relative cost of products manufactured in the PRC is getting more and more expensive when comparing to other South East Asian countries. In 2011, owing to the rising labor cost, the gross margin of the Company has been adversely affected.

The continuous rising labor in the PRC is expected to dampen the profit levels of apparel manufacturers and wholesalers industry in the foreseeable future. In addition, as most of the Group's turnover is generated from the domestic import and export companies and overseas trading companies under the OEM model, the slowdown of world economy in general will lead to a reducing demand of the Group's products. Although the Directors are exercising stringent control over production costs and improving its manufacturing processes, operation in the PRC becomes difficult with the increasing operation costs and limitation of increasing selling price. Consequently, we are not very optimistic about the profitability in 2012.

Domestically, in order to increase the brand awareness of the Group's products, the Group has implemented a branding strategy in marketing its products in its target markets. The Directors believe that the increase in brand awareness will boost the Company's profile in the PRC which in turn increase its sales.

In addition, the Company will continue to explore opportunities for mergers and acquisitions and capitalize on business opportunities to achieve steady and sustainable growth with a view to generate more satisfactory returns for its shareholders.

REPORT OF THE DIRECTORS

The Board has pleasure in presenting the annual report of the Company and the audited consolidated financial statements for the year ended 31 December 2011.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and the activities of its subsidiaries are set out in note 31 to the consolidated financial statements. There were no significant changes in the nature of Group's principal activities during the year ended 31 December 2011.

RESULTS AND APPROPRIATIONS

A summary of the results, assets and liabilities of the Group for the year ended 31 December 2011 and the state of affairs of the Group at that date are set out in the consolidated financial statements on pages 30 to 33.

The Board does not recommend the payment of any dividend for the year ended 31 December 2011.

SUMMARY FINANCIAL INFORMATION

	Year ended 31 December				
	2007	2008	2009	2010	**2011**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Revenue	106,928	144,164	146,003	202,232	**184,804**
Gross profit	14,686	18,833	20,165	32,823	**12,884**
Profit before tax	13,492	17,393	15,698	26,706	**1,531**
Profit attributable to owners of the Company	13,492	17,393	15,702	23,089	**411**
Basic earnings per share (RMB)	0.036	0.047	0.042	0.062	**0.0011**

	As at 31 December				
	2007	2008	2009	2010	**2011**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Non-current assets	8,639	8,116	17,082	23,749	**22,432**
Current assets	24,083	40,811	53,641	73,645	**74,749**
Current liabilities	16,617	14,508	9,268	16,383	**15,579**
Net assets	16,105	34,419	61,455	81,011	**81,422**

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2011, the aggregate sales attributable to the Group's five largest customers accounted for 78.1% of the total sales for the year and the sales attributable to the largest customer included therein amounted to24.3%. The aggregate purchases from the Group's five largest suppliers accounted for 38.9% of the total purchases for the year and purchases from the largest supplier included therein amounted to 15.7%.

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 15 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 23 to the consolidated financial statements.

RESERVES

Details of movements in the reserves of the Company and the Group during the year ended 31 December 2011 are set out in note 30 to the consolidated financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2011, the Company's reserves available for distribution to owners comprising share premium account less accumulated losses, amounted to approximately RMB3.8 million (2010: RMB7.9 million).

DIRECTORS

The Directors during the year ended 31 December 2011 and up to the date of this annual report were as follows:

Executive Directors
Mr. Cai Shuiyong
Mr. Cai Shuiping

Independent Non-Executive Directors
Mr. Shen Guoquan (Appointed on 30 March 2011)
Ms. Chan Ling (Appointed on 30 March 2011)
Mr. Liu Jianlin
Mr. Lin Anqing (Resigned on 30 March 2011)
Ms. Lin Peifen (Resigned on 30 March 2011)

In accordance with article 108(a) and 108(b) of the Articles of Association, Mr. Cai Shuiyong, Mr. Cai Shuiping and Mr. Liu Jianlin shall retire from office as Directors by rotation and, being eligible, offer themselves for re-election at the AGM.

At the forthcoming AGM, ordinary resolutions will be put forward to the shareholders of the Company in relation to the proposed re-election of Mr. Cai Shuiyong, Mr. Cai Shuiping and Mr. Liu Jianlin as Directors.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Biographical information of the Directors and senior management of the Group are set out on pages 7 to 8 of this annual report.

DIRECTORS' SERVICE AGREEMENT

Each of the executive Directors has entered into a service agreement with the Company for a term of three years 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. Shen Guoquan, Ms. Chan Ling and Mr. Liu Jianlin has respectively entered into a service agreement with the Company for a term of two years 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 note 12 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 2011, the interests and short positions of the Directors and chief executives of the Company in any 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 (the "SFO")) which require notification 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 are required, pursuant to Section 352 of Part XV of the SFO, to be entered in the register kept by the Company, or which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

(i) Long position in shares of the Company

	Number of ordinary shares				Percentage
Name of Director	Personal interest	Family interest	Corporate interest	Total	of issues 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 as to 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 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 2011, none of the Directors or chief executives of the Company had any interests or short positions in the Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would be required 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 would be required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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

As at 31 December 2011, 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, the following persons (other than the Directors or chief executive of the Company), who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company in accordance with the provision of Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein, were as follows:

Long position in shares of the Company

Name	Capacity	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%

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 deemed to be 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 deemed to be held by Mr. Cai Shuiping under the SFO.

Save as disclosed above, as at 31 December 2011, 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.

REPORT OF THE DIRECTORS (continued)

FINAL DIVIDEND

The Directors do not recommend the payment of a final dividend for the financial year ended 31 December 2011 (2010: nil) and there is no disclosure of the registers of members accordingly.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in note 29 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 ended 31 December 2011.

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

There were no connected transactions or continuing connected transactions of the Company under Chapter 14A of the Main Board Listing Rules which are required to comply with any of the reporting, announcement or independent shareholders' approval requirements under the Main Board Listing Rules.

PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the financial year ended 31 December 2011.

DIRECTORS' INTEREST IN A COMPETING BUSINESS

During the financial year, the Directors were not aware of any business or interest of the Directors or any substantial shareholder (as defined under the 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.

SECURED BANK BORROWING

Particulars of secured bank borrowing of the Group as at 31 December 2011 are set out in note 22 to the consolidated financial statements.

RETIREMENT BENEFIT SCHEMES

Particulars of the retirement benefit schemes of the Group are set out in note 24 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 3.13 of the Main Board 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 3.13 of the Main Board 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 2011.

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 2011.

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 annual 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 where the Company is incorporated, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Board considered that the Company had complied with the code provisions set out in the Code on Corporate Governance Practices (the "Code") as stipulated in Appendix 14 to the Main Board 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 23 to 27 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 two financial years commencing after the Listing Date in accordance with the GEM Listing Rules subject to the terms and conditions of the compliance advisor's agreement. The appointment of TC Capital as the compliance advisor will be terminated upon the despatch of the 2011 annual report.

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 2011.

AUDITORS

SHINEWING (HK) CPA Limited has acted as auditors of the Company for the year ended 31 December 2011.

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, 16 March 2012

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 up to 13 May 2011 as well as Appendix 14 of the Main Board Listing Rules since its share listed on Main Board of the Stock Exchange on 16 May 2011. This report describes the corporate governance standards and practices used by the Company to direct and manage its business affairs.

MODEL CODE FOR SECURITIES TRANSACTIONS

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 as well as Appendix 10 of the Listing Rules since its shares listed on Main Board of the Stock Exchange on 16 May 2011. 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 2011.

BOARD OF DIRECTORS

As at 31 December 2011, 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. Shen Guoquan (Appointed on 30 March 2011)
Ms. Chan Ling (Appointed on 30 March 2011)
Mr. Liu Jianlin
Mr. Lin Anqing (Resigned on 30 March 2011)
Ms. Lin Peifen (Resigned on 30 March 2011)

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 7 to 8 of this annual report.

CORPORATE GOVERNANCE REPORT (continued)

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 nonexecutive 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 Main Board 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 3.13 of the Main Board 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. Shen Guoquan (Appointed on 30 March 2011)	3/3
Ms. Chan Ling (Appointed on 30 March 2011)	3/3
Mr. Liu Jianlin	4/4
Mr. Lin Anqing (Resigned on 30 March 2011)	1/1
Ms. Lin Peifen (Resigned on 30 March 2011)	1/1

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. Shen Guoquan, Ms. Chan Ling and 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. Cai Shuiyong, Mr. Cai Shuiping and Mr. Liu Jianlin shall retire from office as Directors at the 2011 annual general meeting in accordance with article 108(a) and 108(b) of the Article of Association.

At the forthcoming annual general meeting, ordinary resolutions will be put forward to the shareholders of the Company in relation to the proposed re-election of Mr. Cai Shuiyong, Mr. Cai Shuiping as executive Directors and Mr. Liu Jianlin as independent non-executive Director.

CONTINUOUS PROFESSIONAL DEVELOPMENT

The Directors have been informed of the requirement under code provision A.6.1. of the Code regarding continuous professional development. Details of how each Director complies with such requirement for the year ending 31 December 2012 will be set out in the corporate governance report in the 2012 annual report of the Company.

NOMINATION OF 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. During the year ended 31 December 2011, the nomination committee comprised one executive Director, namely Mr. Cai Shuiyong and two independent non-executive Directors namely Mr. Shen Guoquan and Ms. Chan Ling. Pursuant to a resolution of the Board passed on 16 March 2012, Ms. Chan Ling 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 2011.

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. During the year ended 31 December 2011, the remuneration committee comprised one executive Director, namely, Mr. Cai Shuiyong and two independent non-executive Directors, namely Mr. Shen Guoquan and Ms. Chan Ling. Pursuant to a resolution of the Board passed on 16 March 2012, Ms. Chan Ling 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 2011.

ACCOUNTABILITY AND AUDIT

The Directors acknowledge their responsibility for the preparation of the financial statements of the Company for the year ended 31 December 2011. The Directors are responsible for overseeing the preparation of financial statements of the Company with a view to ensuring that such financial statements give a true and fair view of the state of affairs of the Group and those relevant statutory and regulatory requirements and applicable accounting standards are complied with. The Company believes in conducting itself in ways that deliver maximum sustainable value to the shareholders.

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. The statement of the external auditors of the Company about their reporting responsibilities on the financial statements is set out in the "Independent Auditor's Report" in this annual report.

AUDITORS' REMUNERATION

For the year ended 31 December 2011, the remuneration paid to the auditors, SHINEWING (HK) CPA Limited in respect of audit services amounted to HK$600,000 (2010: HK$600,000) and non-audit service assignment amounted to HK$150,000 (2010: HK$200,000).

AUDIT COMMITTEE

The Company established an audit committee in September 2009 with written terms of reference in compliance with Rules 3.21 to 3.23 of the Main Board 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. Shen Guoquan and Ms. Chan Ling. Mr. Liu Jianlin has been appointed as the chairman of the audit committee.

The following table shows the attendance of individual Directors at the meetings held during the year:

Mr. Shen Guoquan (Appointed on 30 March 2011)	3/3
Ms. Chan Ling (Appointed on 30 March 2011)	3/3
Mr. Liu Jianlin	4/4
Mr. Lin Anqing (Resigned on 30 March 2011)	1/1
Ms. Lin Peifen (Resigned on 30 March 2011)	1/1

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 and Main Board Listing Rules and the legal requirements in the review of the Company's quarterly, interim and annual reports.

COMPANY SECRETARY

The secretary of the Company is Mr. Kwong Ping Man. Mr. Kwong has been informed of the requirement under Rule 3.29 of the Listing Rules and his compliance with such requirement for the year ending 31 December 2012 will be set out in the corporate governance report in the 2012 annual report of the Company

INVESTOR RELATIONS AND COMMUNICATION WITH SHAREHOLDERS

The Board recognizes the importance of maintaining a clear, timely and effective communication with the Shareholders and investors of the Company. The Board also recognizes that effective communication with its investors is critical in establishing investor confidence and to attract new investors. Therefore, the Company is committed to maintaining a high degree of transparency to ensure the investors of the Company and the Shareholders will receive accurate, clear, comprehensive and timely information of the Group. 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.com 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 ended 31 December 2011, 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.

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 30 to 68, which comprise the consolidated statement of financial position as at 31 December 2011, 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.

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

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

INDEPENDENT AUDITOR'S REPORT (continued)

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 2011 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
Pang Wai Hang
Practising Certificate Number: P05044

Hong Kong
16 March 2012

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

	NOTES	2011 RMB'000	2010 RMB'000
Turnover	7	**184,804**	202,232
Cost of sales		**(171,920)**	(169,409)
Gross profit		**12,884**	32,823
Bank interest income		**105**	35
Selling and distribution costs		**(1,096)**	(1,761)
Administrative expenses		**(9,865)**	(4,211)
Finance costs	9	**(497)**	(180)
Profit before tax		**1,531**	26,706
Income tax expense	10	**(1,120)**	(3,625)
Profit and total comprehensive income for the year	11	**411**	23,081
Profit and total comprehensive income attributable to:			
Owners of the Company		**411**	23,089
Non-controlling interests		**–**	(8)
		411	23,081
Earnings per share:			
Basic and diluted	13	**RMB0.11 cents**	RMB6.24 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2011

	NOTES	2011 RMB'000	2010 RMB'000
Non-current assets			
Property, plant and equipment	15	**15,350**	16,506
Prepaid lease payments	16	**7,082**	7,243
		22,432	23,749
Current assets			
Inventories	17	**8,972**	13,794
Trade and other receivables	18	**32,516**	33,646
Prepaid lease payments	16	**161**	161
Tax recoverable		**232**	–
Bank balances and cash	19	**32,868**	26,044
		74,749	73,645
Current liabilities			
Trade and other payables	20	**4,608**	13,082
Amount due to a controlling shareholder	21	**589**	–
Tax liabilities		**562**	1,301
Secured bank borrowing	22	**10,000**	2,000
		15,759	16,383
Net current assets		**58,990**	57,262
Total assets less current liabilities		**81,422**	81,011
Capital and reserves			
Share capital	23	**3,256**	3,256
Reserves		**78,166**	77,755
Total equity attributable to owners of the Company		**81,422**	81,011

The consolidated financial statements on pages 30 to 68 were approved and authorised for issue by the board of directors on 16 March 2012 and are signed on its behalf by:

Cai Shuiyong **Cai Shuiping**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2011

	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 2010	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 29 (c))	–	–	–	–	(1,659)	–	(1,659)	(1,866)	(3,525)
Appropriation to reserves	–	–	–	2,595	–	(2,595)	–	–	–
At 31 December 2010 and at 1 January 2011	3,256	10,642	10	5,256	18,038	43,809	81,011	–	81,011
Total comprehensive income for the year	–	–	–	–	–	411	411	–	411
Appropriation to reserves	–	–	–	687	–	(687)	–	–	–
At 31 December 2011	3,256	10,642	10	5,943	18,038	43,533	81,422	–	81,422

Notes:

a. Statutory reserves

Statutory reserves were established in accordance with the relevant People's Republic of China (the "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 2010;

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

– 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 RMB4,108,000 (2010: RMB1,932,000) which has been dealt with in the financial statements of the Company.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2011

	2011 RMB'000	2010 RMB'000
OPERATING ACTIVITIES		
Profit before tax	1,531	26,706
Adjustments for:		
Amortisation of prepaid lease payments	161	161
Depreciation of property, plant and equipment	1,300	866
Finance costs	497	180
Bank interest income	(105)	(35)
Impairment loss recognised in respect of trade receivables	–	100
Loss on disposal of property, plant and equipment	42	99
Operating cash flows before movements in working capital	3,426	28,077
Decrease (increase) in inventories	4,822	(6,280)
Decrease (increase) in trade and other receivables	1,130	(7,657)
(Decrease) increase in trade and other payables	(8,474)	9,190
Cash generated from operations	904	23,330
People's Republic of China Enterprise Income Tax paid	(2,091)	(2,324)
NET CASH (USED IN) FROM OPERATING ACTIVITIES	(1,187)	21,006
INVESTING ACTIVITIES		
Interests received	105	35
Proceeds on disposal of property, plant and equipment	56	87
Purchases of property, plant and equipment	(242)	(7,880)
NET CASH USED IN INVESTING ACTIVITIES	(81)	(7,758)
FINANCING ACTIVITIES		
New bank borrowing raised	10,000	7,953
Repayments of bank borrowing	(2,000)	(7,953)
Consideration paid for the acquisition of an additional interests in a subsidiary from a non-controlling shareholder	–	(3,525)
Advance from (repayment to) a controlling shareholder	589	(2,983)
Repayment to a related company	–	(393)
Interest paid	(497)	(180)
NET CASH FROM (USED IN) FINANCING ACTIVITIES	8,092	(7,081)
NET INCREASE IN CASH AND CASH EQUIVALENTS	6,824	6,167
CASH AND CASH EQUIVALENTS AT 1 JANUARY	26,044	19,877
CASH AND CASH EQUIVALENTS AT 31 DECEMBER, represented by bank balances and cash	32,868	26,044

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

1. GENERAL INFORMATION

Jiangchen International Holdings Limited (the "Company") is a public limited company incorporated in the Cayman Islands. On 8 October 2009, its shares were listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and were withdrawn from the GEM on 13 May 2011. On 16 May 2011, the Company's shares were listed on the Main Board of the Stock Exchange.

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 parent company and Mr. Cai Shuiyong ("Mr. Cai SY") and Mr. Cai Shuiping ("Mr. Cai SP") are the ultimate controlling shareholders.

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 HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Amendments to HKFRSs	Improvements to HKFRSs issued in 2010
Amendments to HKFRS 1	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters
Amendments to Hong Kong Accounting Standards ("HKAS") 32	Classification of Rights Issues
HKAS 24 (Revised)	Related Party Disclosures
HK(IFRIC)-Interpretation ("Int") 14 (Amendment)	Prepayments of a Minimum Funding Requirement
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments

The directors of the Company anticipate that the application of new and revised HKFRSs has had no material impact on the Group's performance and position for the current and prior years and/or the disclosures set out in these consolidated financial statements.

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

New and revised standards, amendments and interpretations in issue but not yet effective

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective.

Amendments to HKFRS 1	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters[1]
Amendments to HKFRS 7	Disclosures – Transfers of Financial Assets[1]
	Disclosures – Offsetting Financial Assets and Financial Liabilities[4]
	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[6]
HKFRS 9	Financial Instruments[6]
HKFRS 10	Consolidated Financial Statements[4]
HKFRS 11	Joint Arrangements[4]
HKFRS 12	Disclosure of Interests in Other Entities[4]
HKFRS 13	Fair Value Measurement[4]
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[3]
Amendments to HKAS 12	Deferred Tax: Recovery of Underlying Assets[2]
HKAS 19 (as revised in 2011)	Employee Benefits[4]
HKAS 27 (as revised in 2011)	Separate Financial Statements[4]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[4]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[5]
HK(IFRIC)-Int 20	Stripping Costs in the Production Phase of a Surface Mine[4]

1 Effective for annual periods beginning on or after 1 July 2011.
2 Effective for annual periods beginning on or after 1 January 2012.
3 Effective for annual periods beginning on or after 1 July 2012.
4 Effective for annual periods beginning on or after 1 January 2013.
5 Effective for annual periods beginning on or after 1 January 2014.
6 Effective for annual periods beginning on or after 1 January 2015.

Amendments to HKFRS 7 Disclosures – Transfers of Financial Assets

The amendments to HKFRS 7 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 other types of transfers of financial assets in the future, disclosures regarding those transfers may be affected.

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

New and revised standards, amendments and interpretations in issue but not yet effective (Continued)

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of 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. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the presentation of 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 presented 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 presented in profit or loss.

The directors anticipate that the adoption of HKFRS 9 in the future may have 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.

New and revised Standards on consolidation

HKFRS 10 replaces the parts of HKAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements and HK (SIC)-Int 12 Consolidation – Special Purpose Entities. HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios.

The directors of the Company anticipate that the application of other new and revised HKFRSs 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 Main Board of the Stock Exchange and by the Hong Kong Companies Ordinance.

Basis of consolidation

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

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

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

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

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

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 (effective from 1 January 2010 onwards).

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.

Investment in a subsidiary

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

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

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

– the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;

– the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

– the amount of revenue can be measured reliably;

– it is probable that the economic benefits associated with the transaction will flow to the Group; and

– the cost incurred or to be incurred in respect of the transaction can be measured reliably.

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 income 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 asset's 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 as described below) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised to write off the cost of items of property, plant and equipment (other than construction in progress) less their residual values over their estimated useful lives, 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 purposes are 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment (Continued)

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 the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

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.

The Group as lessee

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other 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 the PRC companies in the Group are charged as an expense when employees have rendered services entitling them to the contributions.

Taxation

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

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.

Current and 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 current and deferred tax is also recognised in other comprehensive income or directly in equity respectively.

Research expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

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 statements of financial position when the Group becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Group's financial assets are classified as loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

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 for debt instruments.

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 each reporting period. Financial assets are considered to be 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 and 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.

For certain categories of financial assets, such as trade and other receivables, assets that are assessed not to be impaired individually are, in addition, 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment loss on financial assets (Continued)

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's 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 trade and other receivables are 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 impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss 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 as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

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 (including all fees and points 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 liability, or where appropriate, a shorter period, to the net carrying amount on initial recognition.

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 a controlling shareholder and secured bank borrowing 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

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. 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 and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

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. When 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment losses on tangible assets (Continued)

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 is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

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

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 judgements, 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 followings 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 involves management's estimation. The Group assesses annually the useful lives 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.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

(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 2011, the carrying amount of trade receivable is approximately RMB26,971,000 (net of allowance for doubtful debts of approximately RMB100,000) (2010: carrying amount of approximately RMB25,758,000, net of allowance for doubtful debts of RMB100,000).

(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 2011, the carrying amounts of property, plant and equipment and prepaid lease payments are RMB15,350,000 (2010: RMB16,506,000) and RMB7,243,000 (2010: RMB7,404,000) respectively.

(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 2011, the carrying amount of inventories is RMB8,972,000 (2010: RMB13,794,000).

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 borrowing disclosed in Note 22 and equity attributable to owners of the Company, comprising issued share capital and reserves.

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

	2011 RMB'000	2010 RMB'000
Loan and receivables (including bank balances and cash)	**60,062**	51,802
Financial liabilities at amortised cost	**14,587**	9,377

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 a controlling shareholder, and secured bank borrowing. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(i) Currency risk

One of the subsidiaries of the Company has foreign currency sales, which exposes the Group to foreign currency risk. Approximately 2% (2010: 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 bank balances of the Group are denominated in currencies other than RMB.

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

	2011 Hong Kong Dollars ("HKD")'000	2010 HKD'000
Assets	**151**	3,993

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.

6. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

(i) Currency risk (Continued)

Sensitivity analysis

The Group is mainly exposed to the currency of HKD.

The following table details the Group's sensitivity to a 5% (2010: 5%) increase and decrease in RMB against the relevant foreign currencies. A 5% (2010: 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% (2010: 5%) change in foreign currency rates. A positive number below indicates a decrease in post-tax profit where RMB strengthen 5% (2010: 5%) against the relevant currency. For a 5% (2010: 5%) weakening of RMB against the relevant currency, there would be an equal and opposite impact on the post-tax profit, and the balances below would be negative.

	Impact of HKD	
	2011	2010
	RMB' 000	RMB' 000
Profit or loss	**6**	176

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

(ii) Interest rate risk

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank borrowing (see Note 22 for details of this borrowing). To mitigate the impact of interest rate fluctuations, the Group continually assesses and monitors the exposure to interest rate.

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.

6. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

(ii) Interest rate risk (Continued)

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for secured bank borrowing. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates have been 50 basis points higher/lower and all other variables were held constant, the Group's post-tax profit would decrease/increase by approximately RMB38,000 (2010: nil). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowing.

(iii) Credit risk

As at 31 December 2011, 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 37% (2010: 40%) and 81% (2010: 86%) 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 segment.

The Group's concentration of credit risk by geographical location is mainly in the PRC, which accounted for 100% (2010: 100%) 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.

6. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

(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. As at 31 December 2011 and 2010, the aggregate undiscounted principal amounts of the secured bank borrowing approximately amounted to RMB10,097,000 and RMB2,066,000 respectively and its maturity date is within one year.

Except for the secured bank borrowing, all other financial liabilities are non-interest bearing and their maturity dates are within one year or on demand.

(v) 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.

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

The Group's revenue, results, assets and liabilities are primarily attributable to the manufacturing and wholesaling of apparels. The information reported to the chief operating decision maker 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 years ended 31 December 2011 and 2010 is presented below.

Segment revenues and results

The following is an analysis of the Group's revenue and results by reportable and operating segment for the years ended 31 December 2011 and 2010:

For the year ended 31 December 2011

	Manufacturing and wholesaling of OEM products RMB'000	Brand Business RMB'000	Total RMB'000
Revenue	148,612	36,192	184,804
Segment results	2,962	2,496	5,458
Bank interest income			105
Central administrative costs			(3,535)
Finance costs			(497)
Profit before tax			1,531

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
Bank interest income			35
Central administrative costs			(1,943)
Finance costs			(180)
Profit before tax			26,706

8. SEGMENT INFORMATION (Continued)

Segment revenues and results (Continued)

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 and other corporate administrative costs, bank interest income and finance costs. This is the measure reported to the chief executive officer for the purposes of resource allocation and assessment of segment performance.

Segment assets and liabilities

The segment assets and liabilities at 31 December 2011 and 2010 by reportable segment are as follows:

31 December 2011

	Manufacturing and wholesaling of OEM products RMB'000	Brand Business RMB'000	Total segment RMB'000	Unallocated RMB'000	Total RMB'000
Segment assets	**54,236**	**9,448**	**63,684**	**33,497**	**97,181**
Segment liabilities	**3,474**	**664**	**4,138**	**11,621**	**15,759**

As at 31 December 2010

	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 borrowing, tax liabilities, amount due to a controlling shareholder and other payables for corporate use.

8. SEGMENT INFORMATION (Continued)

Other segment information

For the year ended 31 December 2011

	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	**242**	**–**	**242**
Depreciation of property, plant and equipment	**1,072**	**228**	**1,300**
Amortisation of prepaid lease payments	**151**	**10**	**161**
Loss on disposal of property, plant and equipment	**42**	**–**	**42**
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment results			
Interest expense	**445**	**52**	**497**
Income tax expense	**840**	**280**	**1,120**

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 the chief operating decision maker but not included in the measure of segment results			
Interest expense	111	69	180
Income tax expense	3,178	447	3,625

8. SEGMENT INFORMATION (Continued)

Geographical information

Information about the Group's revenue from external customers is presented based on the location of operations and are detailed below:

	2011 RMB'000	2010 RMB'000
PRC (excluding Hong Kong)	**180,567**	193,839
Others	**4,237**	8,393
	184,804	202,232

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

Information about major customers

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

	2011 RMB'000	2010 RMB'000
Customer A	**44,871**	45,004
Customer B	**33,280**	28,879
Customer C	**32,744**	33,013
Customer D	**N/A**[1]	35,533
Customer E	**N/A**[1]	22,838
	110,895	165,267

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

9. FINANCE COSTS

	2011 RMB'000	2010 RMB'000
Interest on secured bank borrowing wholly repayable within one year	**497**	180

10. INCOME TAX EXPENSE

	2011 RMB'000	2010 RMB'000
Current PRC Enterprise Income Tax	1,120	3,625

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:

	2011 RMB'000	2010 RMB'000
Profit before tax	1,531	26,706
Tax expense at rates applicable to profits in the countries concerned	1,276	7,181
Tax effect of expenses not deductible for tax purpose	3	80
Tax effect of tax losses not recognised	978	–
Tax effect of tax exemption granted to PRC subsidiaries	(1,137)	(3,636)
Income tax expense for the year	1,120	3,625

As at 31 December 2011, the Group has unrecognised tax losses of approximately RMB3,912,000 (2010: nil), which can be carried forward to offset future taxable profit and will expire after five years. The deferred tax benefit of such tax losses has not been recognised as it is not considered probable that future taxable profit will be available to utilise the unused tax losses.

10. 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 RMB62,824,000 (2010: RMB58,827,000) 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.

11. PROFIT FOR THE YEAR

	2011 RMB'000	2010 RMB'000
Profit before tax has been arrived at after charging:		
Directors' emoluments (Note 12)	203	203
Other staff costs	26,481	23,887
Termination benefits	2,907	–
Retirement benefits scheme contributions, excluding directors	11,138	7,745
Total staff costs	40,729	31,835
Amortisation of prepaid lease payments	161	161
Impairment loss recognised in respect of trade receivables	–	100
Auditors' remuneration	497	528
Cost of inventories recognised	171,878	169,325
Depreciation of property, plant and equipment	1,300	866
Exchange loss	119	78
Loss on disposal of property, plant and equipment	42	99
Operating lease rental paid in respect of rented premises	488	87
Research and development costs recognised as an expense (included in the administrative expenses) (Note)	289	206

Note: During the year ended 31 December 2011, research and development costs included staff costs of approximately RMB178,000 (2010: RMB125,000) for the Group's employees engaged in research and development activities, which are also included in staff costs.

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors

The emoluments paid or payable to each of the Seven (2010: Five) directors were as follows:

For the year ended 31 December 2011

	Fees RMB'000	Salaries and other allowances RMB'000	Retirement benefits scheme contributions RMB'000	Total RMB'000
Executive directors:				
Mr. Cai SY	–	60	7	67
Mr. Cai SP	–	60	–	60
Independent non-executive directors:				
Mr. Lin Anqing *	7	–	–	7
Ms. Lin Peifen *	7	–	–	7
Mr. Liu Jianlin	26	–	–	26
Mr. Shen Guoquan **	18	–	–	18
Ms. Chan Ling **	18	–	–	18
Total	76	120	7	203

* Resigned on 30 March 2011.

** Appointed on 30 March 2011.

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

(a) Directors (Continued)

For the year ended 31 December 2010

	Fees RMB'000	Salaries and other allowances RMB'000	Retirement benefits scheme contributions RMB'000	Total RMB'000
Executive directors:				
Mr. Cai SY	–	60	5	65
Mr. Cai SP	–	60	–	60
Independent non-executive directors:				
Mr. Lin Anqing	26	–	–	26
Ms. Lin Peifen	26	–	–	26
Mr. Liu Jianlin	26	–	–	26
Total	78	120	5	203

(b) Employees

Of the five individuals with the highest emoluments in the Group, two (2010: two) were directors of the Company whose emoluments are included in the disclosures in Note 12(a) above. The emoluments of the remaining three (2010: three) individuals were as follows:

	2011 RMB'000	2010 RMB'000
Salaries and other allowances	152	285
Retirement benefits scheme contributions	20	10
	172	295

Note: The emolument of each of the above employees is below RMB829,000 (approximately HK$1,000,000).

During the years ended 31 December 2011 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 2011 and 2010.

13. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to owners of the Company of approximately RMB411,000 (2010: RMB23,089,000) and the weighted average number of shares in issue during the year of 370,000,000 (2010: 370,000,000).

The dilutive earnings per share are the same as the basic earnings per share for the years ended 31 December 2011 and 2010 as there were no dilutive potential ordinary shares outstanding during both years.

14. DIVIDEND

No dividend was paid, declared or proposed during the years ended 31 December 2011 and 2010.

15. 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 2010	8,641	2,683	111	585	–	12,020
Addition	–	1,162	97	132	6,489	7,880
Transfer	5,839	–	–	–	(5,839)	–
Disposal	–	(346)	–	–	–	(346)
At 31 December 2010 and 1 January 2011	14,480	3,499	208	717	650	19,554
Additions	–	–	–	–	242	242
Transfer	–	–	–	892	(892)	–
Disposals	–	(209)	–	–	–	(209)
At 31 December 2011	14,480	3,290	208	1,609	–	19,587
ACCUMULATED DEPRECIATION						
At 1 January 2010	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 and 1 January 2011	1,512	1,225	94	217	–	3,048
Provided for the year	666	314	33	287	–	1,300
Eliminated on disposals	–	(111)	–	–	–	(111)
At 31 December 2011	2,178	1,428	127	504	–	4,237
CARRYING VALUES						
At 31 December 2011	12,302	1,862	81	1,105	–	15,350
At 31 December 2010	12,968	2,274	114	500	650	16,506

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

15. 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 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

The Group has pledged buildings with net carrying value of approximately RMB10,228,000 (2010: nil) to secure general banking facilities granted to the Group.

16. PREPAID LEASE PAYMENTS

	2011 RMB'000	2010 RMB'000
Analysed for reporting purposes as:		
Current asset	**161**	161
Non-current asset	**7,082**	7,243
	7,243	7,404
The Group's prepaid lease payments comprise:		
Leasehold lands in the PRC under medium-term lease	**7,243**	7,404

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

The Group has pledged leasehold lands with net carrying value of approximately RMB6,405,000 (2010: RMB5,415,000) to secure general banking facilities granted to the Group.

17. INVENTORIES

	2011 RMB'000	2010 RMB'000
Raw materials	**2,162**	3,738
Work-in-progress	**471**	3,559
Finished goods	**6,339**	6,497
	8,972	13,794

18. TRADE AND OTHER RECEIVABLES

	2011 RMB'000	2010 RMB'000
Trade receivables	27,071	25,858
Less: allowance for doubtful debts	(100)	(100)
	26,971	25,758
Prepayment	5,322	7,704
Other receivables	223	184
	32,516	33,646

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:

	2011 RMB'000	2010 RMB'000
0 – 90 days	25,521	25,758
91 – 180 days	1,450	–
Total	26,971	25,758

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 receivables 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, the directors of the Company consider that no allowance is required. The Group does not hold any collateral over these balances.

As at 31 December 2011 and 2010, all trade receivables are neither past due nor impaired.

18. TRADE AND OTHER RECEIVABLES (Continued)

Movement in the allowance for doubtful debts

	2011 RMB'000	2010 RMB'000
1 January	100	–
Impairment losses recognised in respect of trade receivables	–	100
31 December	100	100

Included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of RMB100,000 (2010: RMB100,000) which have been overdue by more than one year. The Group does not hold any collateral over these balances.

The Group's trade receivables are all denominated in RMB.

19. BANK BALANCES AND CASH

At 31 December 2011, the Group's bank balances and cash denominated in RMB amounted to approximately RMB32,744,000 (2010: RMB22,529,000). 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 0.50% (2010: 0.31%) 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:

	2011 '000	2010 '000
HKD	151	3,993

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2011

20. TRADE AND OTHER PAYABLES

	2011 RMB'000	2010 RMB'000
Trade payables	**1,758**	4,019
Receipt in advance	**26**	4,065
Other payables	**2,824**	4,998
	4,608	13,082

The average 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 2011, all trade payables are aged within 30 days (2010: within 30 days) based on the invoice date at the end of the reporting date.

All trade and other payables are denominated in RMB.

21. AMOUNT DUE TO A CONTROLLING SHAREHOLDER

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

22. SECURED BANK BORROWING

	2011 RMB'000	2010 RMB'000
Bank borrowing due within one year	**10,000**	2,000

The bank borrowing carries interest at variable rate with reference to The People's Bank of China Prescribed Interest Rate with 15% mark up (2010: fixed interest rates 6.90%) per annum for the year.

At 31 December 2011 and 2010, the bank borrowings are secured by certain assets of the Group as set out in Note 27. There are unutilised banking facilities of RMB5,000,000 (2010: nil) at the end of the reporting period.

23. SHARE CAPITAL

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

	Par value HK$	Number of ordinary shares '000	Nominal value of ordinary shares HK$'000
Authorised:			
At 1 January 2010, 31 December 2010 and 2011	0.01	1,000,000	10,000

23. SHARE CAPITAL (Continued)

	Par value	Number of ordinary shares	Nominal value of ordinary shares	
	HK$	'000	HK$'000	RMB'000
Issued and fully paid:				
At 1 January 2010, 31 December 2010 and 2011	0.01	370,000	3,700	3,256

24. RETIREMENT BENEFIT SCHEMES

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 RMB11,145,000 (2010: RMB7,750,000) 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.

25. 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 3 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:

	2011 RMB'000	2010 RMB'000
Within one year	973	48
In the second to fifth year inclusive	1,399	125
	2,372	173

As at 31 December 2011, included in the above is commitment under non-cancellable operating leases of approximately RMB62,000 (2010: RMB91,000) which will expire in 2014 payable to Mr. Tsoi Kam On, the brother of Mr. Cai SY.

26. CAPITAL COMMITMENTS

	2011 RMB'000	2010 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

27. PLEDGE OF ASSETS

The Group had pledged certain of its buildings and leasehold lands to secure banking facilities granted to the Group. At the end of the reporting period, the carrying values of these pledged assets are as follows:

	2011 RMB'000	2010 RMB'000
Buildings	10,228	–
Leasehold lands	6,405	5,415
	16,633	5,415

28. 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 of the Company 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 2011, there are no outstanding share options under the Scheme (2010: Nil).

29. 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

		2011 RMB'000	2010 RMB'000
Mr. Tsoi Kam On	Note	29	29

Note: Mr. Tsoi Kam On 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.

29. RELATED PARTY TRANSACTIONS (Continued)

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

	2011 RMB'000	2010 RMB'000
Salaries and other allowances	**320**	318
Retirement benefits scheme contributions	**33**	21
	353	339

(c) Acquisition of 30% additional equity interests in Jiangxi Hongfeng Textile Company Limited ("Hongfeng Textile")

As mentioned in the announcement and circular issued by the Company dated 23 December 2009 and 13 January 2010 respectively, Sino Prosper (Asia) Limited ("Sino Prosper") conditionally entered into Equity Transfer Agreement II on 23 December 2009 with Hong Feng International Holdings Limited ("Hong Feng International"), a company owned by Mr. Cai SY and Mr. Cai SP as to 50% each. Pursuant to the agreement, Sino Prosper 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.

30. THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Notes	**2011 RMB'000**	2010 RMB'000
Non-current asset			
Investment in a subsidiary		**325**	325
Current assets			
Other receivables		**394**	60
Amount due from a subsidiary	(a)	**7,192**	9,017
Bank balances and cash		**49**	2,761
		7,635	11,838
Current liabilities			
Other payables		**469**	528
Amount due to a subsidiary	(a)	**471**	507
		940	1,035
Net current assets		**6,695**	10,803
Total assets less current liabilities		**7,020**	11,128
Capital and reserves			
Share capital		**3,256**	3,256
Reserves	(b)	**3,764**	7,872
Total equity		**7,020**	11,128

Notes:

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

(b) Reserves

	Share premium RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2010	10,642	(838)	9,804
Loss and total comprehensive expenses for the year	–	(1,932)	(1,932)
At 31 December 2010 and 1 January 2011	10,642	(2,770)	7,872
Loss and total comprehensive expenses for the year	–	(4,108)	(4,108)
At 31 December 2011	10,642	(6,878)	3,764

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2011

31. SUBSIDIARIES

Details of the subsidiaries at 31 December 2011 and 2010, are as follows:

Name of company	Place of incorporation/ establishment/ operations	Class of shares held	Equity interest attributable to the Group Direct		Indirect		Capital contributed by the Group		Principal activities
			2011	2010	2011	2010	2011	2010	2011 & 2010
Newshine International Limited 新光國際有限公司	BVI	Ordinary	100%	100%	-	-	United States Dollars ("USD") 1	USD 1	Investment holding
Sino Prosper 華盛(亞洲)有限公司	Hong Kong	Ordinary	-	-	100%	100%	HK$1	HK$1	Investment holding
Wannianxian Xiefeng Textiles and Garments Co., Ltd. #* 萬年縣協豐紡織服飾有限公司	The PRC	Contributed Capital	-	-	100%	100%	HK$3,200,000	HK$3,200,000	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
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
Hongfeng Textile #* 江西泓峰紡織有限公司	The PRC	Contributed Capital	-	-	100%	100%	RMB13,779,899	RMB13,779,899	Manufacturing and wholesaling of apparels

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.