Grand Concord International Holdings Limited
廣豪國際控股有限公司

(Incorporated in the British Virgin Islands with limited liability)

Stock Code: 844

Annual Report 2012

CONTENTS

CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr. Wong Kin Ling
Madam Hung Kin
Mr. Wang Shao Hua
Mr. Wei Jin Long

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Wang Jin Tang
Ms. Tay Sheve Li
Dr. Chan Ah Pun

AUTHORISED REPRESENTATIVES

Mr. Wong Kin Ling
Madam Hung Kin

AUDIT COMMITTEE MEMBERS

Ms. Tay Sheve Li *(Chairman)*
Mr. Wang Jin Tang
Dr. Chan Ah Pun

REMUNERATION COMMITTEE MEMBERS

Mr. Wang Jin Tang *(Chairman)*
Mr. Wong Kin Ling
Ms. Tay Sheve Li
Dr. Chan Ah Pun

NOMINATION COMMITTEE MEMBERS

Dr. Chan Ah Pun *(Chairman)*
Mr. Wong Kin Ling
Ms. Tay Shave Li

COMPANY SECRETARY

Mr. Lee Yin Sing, *CPA*

AUDITORS

SHINEWING (HK) CPA Limited

COMPLIANCE ADVISER

Celestial Capital Limited

LEGAL ADVISER

Cheung & Lee
in association with Locke Lord Bissell & Liddell (HK) LLP

REGISTERED OFFICE

P.O. Box 3340,
Road Town,
Tortola,
British Virgin Islands

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Units 1108-1109,
11/F, Tower II, Enterprise Square,
9 Sheung Yuet Road,
Kowloon Bay,
Kowloon, Hong Kong

PRINCIPAL PLACE OF BUSINESS IN THE PRC

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Zhucheng City,
Shandong Province, PRC

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN BVI

Tricor Services (BVI) Limited
P.O. Box 3340,
Road Town,
Tortola,
British Virgin Islands

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

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

PRINCIPAL BANKERS

Industrial and Commercial Bank of China, Zhucheng sub-branch

LISTING EXCHANGE INFORMATION

Place of listing: Main Board of The Stock Exchange of Hong Kong Limited
Stock Code: 844

COMPANY'S WEBSITE

www.grandconcord.com

FINANCIAL HIGHLIGHTS

KEY FINANCIAL INFORMATION FOR THE LAST FIVE YEARS

	For the year ended 31 December/As at 31 December				
	2012	2011	2010	2009	2008
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Key Financial Information					
Revenue	**475,764**	416,547	378,289	194,912	136,188
Gross profit	**116,091**	127,506	105,645	67,416	33,669
Profit before tax	**53,671**	49,036	66,405	40,737	9,450
Profit for the year	**35,490**	29,184	53,471	31,612	7,448
Total comprehensive income for the year	**35,347**	29,324	53,666	31,446	8,046
Non-current assets	**177,562**	145,798	129,772	99,990	93,713
Current assets	**155,369**	188,405	143,659	90,299	49,751
Current liabilities	**101,048**	131,667	140,874	125,398	107,828
Net current assets (liabilities)	**54,321**	56,738	2,785	(35,099)	(58,077)
Total assets	**332,931**	334,203	273,431	190,289	143,464
Total assets less current liabilities	**231,883**	202,536	132,557	64,891	35,636
Total equity	**231,883**	196,536	114,557	60,891	29,445
Cash and cash equivalents	**24,134**	63,744	9,454	19,761	3,870
Key Financial Ratios					
Gross profit margin	**24.4%**	30.6%	27.9%	34.6%	24.7%
Net profit margin	**7.5%**	7.0%	14.1%	16.2%	5.5%
Gearing ratio[(1)]	**9.5%**	20.5%	31.4%	32.7%	41.9%
Current ratio	**1.5**	1.4	1.0	0.7	0.5
Trade receivables turnover days	**38**	39	33	20	22
Inventory turnover days	**56**	72	51	65	60

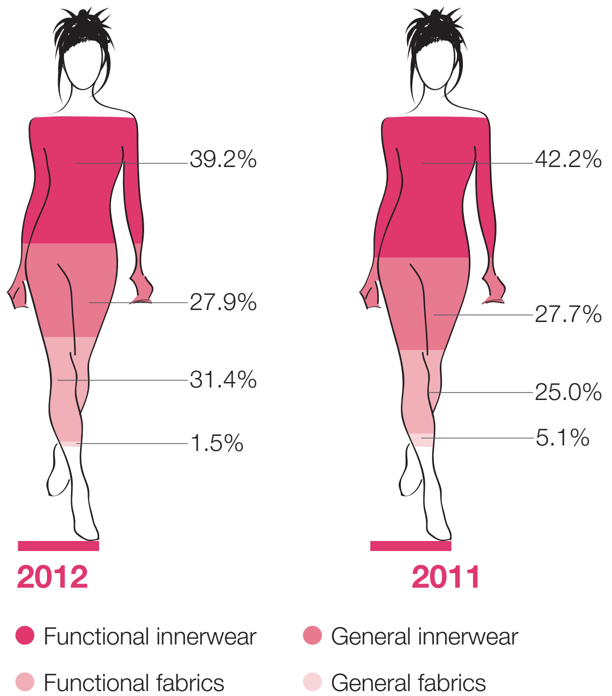
Note:

1. Gearing ratio represents the ratio between total borrowings and total assets.

FINANCIAL HIGHLIGHTS

REVENUE OF THE GROUP ANALYSED BY PRODUCT CATEGORIES

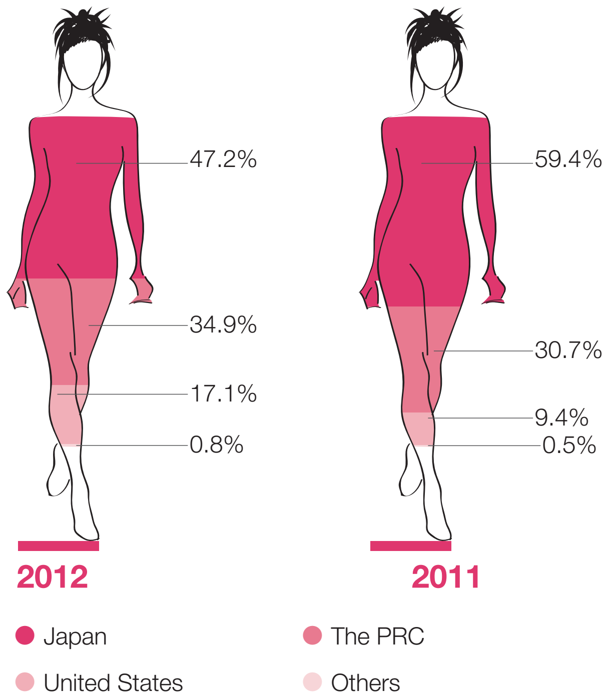
	For the year ended 31 December			
	2012		2011	
	RMB'000		RMB'000	
Revenue of the Group by products				
Fabrics products				
General fabrics	**7,001**	**1.5%**	21,379	5.1%
Functional fabrics	**149,612**	**31.4%**	104,094	25.0%
Sub-total	**156,613**	**32.9%**	125,473	30.1%
Innerwear products				
General innerwear	**132,769**	**27.9%**	115,410	27.7%
Functional innerwear	**186,382**	**39.2%**	175,664	42.2%
Sub-total	**319,151**	**67.1%**	291,074	69.9%
Total	**475,764**	**100%**	416,547	100.0%



FINANCIAL HIGHLIGHTS

REVENUE OF THE GROUP ANALYSED BY REGIONAL DISTRIBUTION

	For the year ended 31 December			
	2012		2011	
	RMB'000		RMB'000	
Revenue of the Group by regional distribution				
Japan	**224,747**	**47.2%**	247,274	59.4%
The PRC	**165,931**	**34.9%**	127,798	30.7%
United States	**81,409**	**17.1%**	39,248	9.4%
Others	**3,677**	**0.8%**	2,227	0.5%
Total	**475,764**	**100%**	416,547	100.0%



CHAIRMAN'S STATEMENT

Dear Shareholders,

A SOLID FOUNDATION FOR FUTURE GROWTH

Acknowledging the trust and support of all shareholders, Grand Concord International Holdings Limited ("**GCI**" or the "**Company**", hereinafter together with its subsidiaries referred to as the "**Group**") during the year under review achieved growth in its results, despite the various challenges facing China's textile industry in 2012, by means of utilising cutting-edge manufacturing technology and process as well as devising effective business sales strategies and leveraging on the edge of our products, which laid a significant and excellent foundation for global development in the future.

I, on behalf of the board ("**Board**") of directors (the "**Directors**") of the Company, wish to present to all shareholders the audited annual results of the Group for the year ended 31 December 2012 (the "**Financial Year**").

OPPORTUNITIES AND CHALLENGES

In 2012, the international market's demand for textile products significantly weakened, while the spread between domestic and international prices of cotton continuously widened. Meanwhile, the international competitiveness of China's textile enterprises was extensively reduced due to the continuously increasing labour costs in mainland China, which had an adverse effect on the growth of China's textile industry. According to the statistics on the textile industry in 2012 released by the Ministry of Industry and Information Technology of the People's Republic of China, the revenue of main businesses of the industry for the year 2012 amounted to approximately RMB5,574.7 billion, representing year-on-year growth of approximately 10.7%, which fell short of the growth rate of the previous year by 15.9%. China's accumulated textile and apparel exports amounted to approximately USD262.6 billion, representing a slightly year-on-year increase of approximately 3.3%. The textile exports and apparel exports increased by approximately 1.5% and approximately 4.5%, respectively, on a year-on-year basis.

Despite the pressure of production costs, the Group, leveraging its vertically-integrated business model as well as cutting-edge manufacturing technologies, excellent product quality and its well established relationships with customers accumulated over time, was able to satisfy the market's complex and varying demand for functional fabrics and innerwear products. During the year under review, the Group's orders from Japan, the United States and China remained stable, with annual revenue of approximately RMB475.8 million, an increase of approximately 14.2% as compared to 2011. Having confronted with challenges in 2012, the Group in the future will pay more attention to customers' needs and work together with customers and all partners to research and develop products for market's specific needs, and further consolidate the existing close relationship to enhance faithful goodwill, strive for more customers and widen its extensive market network. Therefore, the Group committed itself to strengthening various cost-control measures despite the high labour costs in mainland China, and continued to retain the support of long-term customers with a reasonable price level. For instance, during the year under review, the Group made significant investment in and commenced the operation of environmental friendly manufacturing machines with advanced dyeing and finishing technology to further improve the efficiency of the production facilities, enhance production automation and minimise the need of labour. In addition, the Group continued to focus on production and sales of functional fabrics and functional innerwear products. Such products enjoy higher profits than our general fabrics products and there is still certain room for upward adjustments to their prices in the future. With the gradually bolstering market demand for such products in the future, it is believed that the Group is able to achieve higher bargaining power, thus offsetting the effect arising from price fluctuation of raw materials and the rising labour costs.

CHAIRMAN'S STATEMENT

During the year under review, revenue from sale of fabrics and innerwear products of the Group amounted to approximately RMB475.8 million, representing an increase of 14.2% over the previous year. Among other things, revenue from sale of functional fabrics and functional innerwear products of the Group amounted to approximately RMB149.6 million and RMB186.4 million, respectively, up by 43.7% and 6.1% over the previous year, which fully indicated the market value of functional fabrics and functional innerwear products in the textile industry and their strong growth momentum. The Company is a high-end knitting enterprise with the concept of "Function". Apart from providing general fabrics and innerwear, the company concentrated itself on developing various fabrics and innerwear with all kinds of function, including fungus proof, deodorisation, thermoregulation, warming, cool sense, moisture-absorbing and perspiration-wicking. The above revenue accounted for approximately 70.6% of the Group's total revenue. It is expected that, in the textile industry in mainland China in the future, the segment with the concept of "Function" will be the one with the highlight of growth for the industry. With the change of customers' needs arising after their personal experience, functional fabrics and their products emerge correspondingly. Products with the concept of "Function" will further improve to satisfy the market demand synchronously.

CONSOLIDATION AND IMPROVEMENT

As of 31 December 2012, the Group had already developed over 1,000 types of functional fabrics with various components, design and specifications. With a diversified product portfolio and leading R&D strength in the fabric technologies research and development, the Group is able to enrich the number of types of its innerwear products by upgrading our fabric offerings. At present, all types of functional fabrics are enjoying a good sale and are attractive to customers all over the world. Most of the Group's functional fabrics are provided to a number of well-known brands over the world. Meanwhile, the Group also manufactures innerwear products for major international brands on an OEM basis.

With broad experience and sound business reputation, the Group has kept close contact with suppliers from different areas. The Group has maintained good partnerships with their sales teams and R&D teams. The Group believes that such strategic partnerships will help the Group not only further expand into the mainland market, but also consolidate its market position and promote its corporate image.

The Group's existing production base has four key production areas in place, namely weaving, dyeing, printing, and cutting and sewing, which form the Group's vertically-integrated business model. In addition, the base has internal functional fabric R&D, design and testing departments, and is equipped with the cutting-edge manufacturing equipment from all over the world, including the production facilities from Germany, Italy and Japan, which, therefore, ensures an effective control over quality and product upgrade, and ultimately enhances our product competitiveness.

As of 31 December 2012, the Group's annual fabric production capacity was approximately 4,500 tons while that of innerwear was 18.6 million pieces, representing a capacity-utilisation rate as high as 74% and 100%, respectively. The Group has long been cautious about capacity expansion, persisting in closely monitoring industry trends and formulating expansion plans based on its own orders and its judgment about the market. The Group's existing production base is situated in Zhucheng City, Shandong Province, with convenient traffic and which is adjacent to the Group's major Japanese customers. It helps effectively promote communications with customers and reduce logistics costs. Apart from that, the Group has reserved sufficient land for its future expansion use.

CHAIRMAN'S STATEMENT

CONFIDENCE AND PROSPECTS

Thanks to hard working and devoted effort of each staff member of the Group, our achievements are noticeable while the reputation of GCI is widespread. At present, the Group has a clear business model to provide our customers with the most flexible textile supply chain solutions. It has leading production technologies and R&D capabilities, and is supported by a huge customer base and solid customer relationships. The Group has gained exclusive production and sales rights from famous corporate brands. All these have worked together to ensure the stable growth in the overall business results for the year 2012 despite the external economic and industry environment full of challenges.

It is expected that the textile industry will steadily grow in 2013 and the demand in some market segments (such as "Functional" fabric and apparel markets) will outperform. For apparel brands, fabrics are the essence of apparel while the quality is the core security of a brand. The Group has always persisted in and had the ability to provide fabrics of the best quality, and researched and developed the most competitive fabric products for our customers. The Group will also increase its production capacity by expansion of the plant to handle future domestic and overseas orders. Meanwhile, the Group will gain its strength by consolidating its foundation, in order to gradually cultivate the Group's own apparel brand, explore more customers and enhance its reputation in the market, thus stepping into a broader market. In addition to digging out the existing markets, we will further explore and develop the mainland market and seize mainland's huge growth in demand.

The Group's success and future development rely on the long-term support from all our staff, customers and shareholders of the Company. GCI will strive for better results and bring more attractive returns to our shareholders.

Wong Kin Ling
Chairman

Hong Kong, 25 March 2013

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS ENVIRONMENT

In 2012, the Eurozone debt crisis had not turned around and continued to have a significant negative effect on the demand in the international market amid the complex and volatile global economy. The sluggish economic recovery, high unemployment rate and low propensity to consume in the Western developed countries depressed the textile and apparel demand, and, accordingly, were unable to promote the apparel export growth in developing countries. Meanwhile, the competitiveness of China textile enterprises in the global market was further reduced with the widening cotton price spread within and outside China during the year as well as the continuously high labour cost.

Against an unfavourable operating environment, the Group endeavoured to seize every opportunity arising in the market and maintain its business relationship with existing customers to acquire stable amount of orders. Hence, the Group recorded annual growth in revenue in this challenging year. The Group is primarily engaged in production and sales of functional fabrics and innerwear. The market demand for functional fabrics has been increasing steadily. As the living standard is becoming higher, more and more people pay attention to fabric functions, such as the capability to adapt to the environment, to keep warm or to absorb sweat, rather than simply to the outlook of fabrics. In addition, innerwear is an important necessity. Therefore, the demand in the Group's targeted markets is still having stable growth in the overall textile and apparel industry and provides the Group with development opportunities and a platform for further expansion in the future.

In order to further expand its market presence, the Group actively strived to strengthen its cooperation with Outlast of the United States. During the year, the Group successfully acquired the exclusive production and sales rights of Outlast in the innerwear knitted fabric market in China. The Outlast products were initially developed for assisting US astronauts to adapt to the extreme temperature change in the space because they can balance the temperature of human bodies and the external environment, and provide people with comfortable wearing which is able to retain optimal heat. The advanced technology of the Outlast products can be seen on its high moisture absorption, static resistance and degree of comfort. Thus, when the products are used in the production of ordinary consumables, they are well received by consumers. The Group intends to fully utilise the exclusive production and sale rights to expand the Mainland market and enhance its enterprise image of providing high quality products with good credit.

During the year, the Group continued to invest in environmental friendly and technologically advanced production equipment, which was able to enhance the automation level and improve the division of labour in different production processes, thereby lessening the pressure from the increasing labour cost, so as to capture the market opportunities and effectively and flexibly provide customers with various product solutions. In order to maintain the friendly and mutual relationship between the Group and its customers, the Group did not increase its product price. Therefore, the Group was unable to achieve the year-on-year growth in gross profit for the year under the increasing cost pressure.

During the year, the Group also actively explored new markets and participated in trade shows in different regions. In order to increase its brand awareness in Europe, the Group participated in the fashion exhibition held in France in September 2012 to promote the Group's products. In addition, the Company participated in the national exhibition held in Shanghai in October 2012 so as to prepare for enhancing the domestic sales and strengthening its customer base within China.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

The following table sets forth a breakdown of the Group's revenue by knitted fabrics and innerwear products and as a percentage of the Group's total revenue for the year ended 31 December 2012, with corresponding comparative figures for 2011:

	Year ended 31 December			
	2012	**2012**	2011	2011
	RMB'000	**%**	RMB'000	%
Knitted fabrics				
General fabrics	**7,001**	**1.5**	21,379	5.1
Functional fabrics	**149,612**	**31.4**	104,094	25.0
Sub-total	**156,613**	**32.9**	125,473	30.1
Innerwear products				
General innerwear	**132,769**	**27.9**	115,410	27.7
Functional innerwear	**186,382**	**39.2**	175,664	42.2
Sub-total	**319,151**	**67.1**	291,074	69.9
Total	**475,764**	**100.0**	416,547	100.0

For the year ended 31 December 2012, the Group recorded a revenue of approximately RMB475.8 million (2011: RMB416.5 million), representing an increase of approximately RMB59.3 million, or approximately 14.2%. The sales volume of general fabrics, functional fabrics, general innerwear and functional innerwear for the year ended 31 December 2012 were approximately 169 tons, 1,710 tons, 10.3 million pieces and 10.9 million pieces respectively (2011: approximately 336 tons, 1,284 tons, 10 million pieces and 9.8 million pieces respectively). The growth in revenue was mainly due to the increase in production and sales in functional fabrics and various innerwear products, and the stable orders based on the Company's close business relationship with its existing customers. In addition, the sales volume of spring and summer products increased as compared to the corresponding period of last year due to a strategic change in product mix.

Sales of innerwear products amounted to approximately RMB319.2 million (2011: RMB291.1 million), representing approximately 67.1% (2011: 69.9%) of the total revenue for the year ended 31 December 2012. The increase in sales of innerwear products in the amount of approximately RMB28.1 million or approximately 9.7% in 2012 was mainly due to the increase in sale volume of spring and summer innerwear products.

Sales of knitted fabrics amounted to approximately RMB156.6 million (2011: RMB125.5 million), representing approximately 32.9% (2011: 30.1%) of the total revenue for the year ended 31 December 2012. The increase in sales of fabrics in the amount of approximately RMB31.1 million or approximately 24.8% in 2012 was mainly due to the change in the Group's product mix by shifting the focus on general fabrics to functional fabrics, which usually commanded a higher unit selling price than general fabrics.

MANAGEMENT DISCUSSION AND ANALYSIS

Cost of sales

Cost of sales increased by approximately 24.5% from approximately RMB289.0 million for the year ended 31 December 2011 to approximately RMB359.7 million for the corresponding year ended in 2012. The increase primarily reflected the increase in cost of raw materials, direct labour costs and subcontracting charges during the year ended 31 December 2012 as a result of the increase in sales of functional products, which have a higher unit cost, in 2012 and also the increases in unit prices of certain raw materials, particularly for synthetic yarns and dyes which were affected directly by the commodity prices of crude oil. Meanwhile, the salary costs in China increased as compared to last year, resulting in the increase in production cost as well.

Gross profit and gross profit margin

Gross profit decreased by approximately RMB11.4 million, or approximately 9.0%, from approximately RMB127.5 million for the year ended 31 December 2011 to approximately RMB116.1 million for the corresponding year ended in 2012. The Group's gross profit margin also decreased from 30.6% for the year ended 31 December 2011 to 24.4% for the corresponding year ended in 2012, primarily as a result of an increase in unit production costs of the Group's products without significant increment in unit price of both functional and general products in order to retain quality customers.

The Group's gross profit and gross profit margins by products for the year ended 31 December 2012, with corresponding comparative figures in 2011:

	Year ended 31 December			
	2012 Gross profit RMB'000	**2012 Gross profit margins %**	2011 Gross profit RMB'000	2011 Gross profit margins %
Knitted fabrics				
General fabrics	**960**	**13.7**	3,828	17.9
Functional fabrics	**37,443**	**25.0**	29,854	28.7
Sub-total	**38,403**		33,682	
Innerwear products				
General innerwear	**16,238**	**12.2**	24,459	21.2
Functional innerwear	**61,450**	**33.0**	69,365	39.5
Sub-total	**77,688**		93,824	
Total	**116,091**	**24.4**	127,506	30.6

MANAGEMENT DISCUSSION AND ANALYSIS

Other income and gains

Other income and gains amounted to approximately RMB1.2 million (2011: RMB0.6 million) for the year ended 31 December 2012 which were mainly consisted of interest income and penalty charged to suppliers due to defective products.

Selling and distribution expenses

Selling and distribution expenses increased by approximately RMB4.8 million to approximately RMB14.2 million (2011: RMB9.4 million) for the year ended 31 December 2012, primarily due to the increase in sales volume and staff costs for the year. As the sales volume of fabrics and innerwear products increased by approximately 16% and approximately 7%, respectively, the relevant transportation costs incurred for local and overseas delivery to customers increased.

Share-based payment

For the year ended 31 December 2012, no share-based payment was incurred (2011: RMB5.8 million relating to the pre-listing compensation to two senior executives of the Group).

Administrative expenses

Administrative expenses decreased significantly to approximately RMB45.9 million (2011: RMB57.9 million) for the year ended 31 December 2012. In 2011, additional legal and professional fees were incurred for the listing of the Company's shares, but no such expenses was incurred in 2012.

Finance costs

Finance costs decreased to approximately RMB3.5 million (2011: RMB5.9 million) for the year ended 31 December 2012 primarily due to a lower average bank borrowings balance of approximately RMB50.1 million in 2012 (2011: RMB77.2 million).

Profit before tax

The Group's profit before tax increased to approximately RMB53.7 million (2011: RMB49.0 million) for the year ended 31 December 2012 primarily due to the increase in sales, decrease in administrative expenses and absence of share-based payment in 2012.

Income tax expense

Income tax expense decreased to approximately RMB18.2 million (2011: RMB19.9 million). The Group's effective tax rate for the year ended 31 December 2012 was approximately 33.9%, as compared to approximately 40.5% for the corresponding year in 2011, primarily due to certain non-deductible expenses mainly including professional fees in relation to the listing of the Company's shares and share-based payment which were incurred in 2011 were not incurred in 2012.

MANAGEMENT DISCUSSION AND ANALYSIS

Profit for the year and profit margin

The Group's profit for the year increased by approximately RMB6.3 million, or 21.6%, from approximately RMB29.2 million for the year ended 31 December 2011 to approximately RMB35.5 million for the corresponding year in 2012. Profit margin was approximately 7.5% for the year ended 31 December 2012 (2011: 7.0%) and the increase in profit was mainly due to the increase in sales volume, decrease in administrative expenses and absence of share-based payment in 2012.

Inventories

The inventory balances decreased to approximately RMB47.5 million as at 31 December 2012 (2011: RMB62.4 million) as a result of the better control in the Group's inventory level that lowered the respective inventory risk and storage cost.

The average inventory turnover days decreased to approximately 56 days (2011: 72 days) for the year ended 31 December 2012.

Trade and bills receivables

Trade and bills receivables increased to approximately RMB64.9 million (2011: RMB35.1 million) as at 31 December 2012, primarily due to an increase in sales in the year 2012 and the increase in sales to domestic customers who have been granted with a longer credit terms than those granted to Japanese and American customers.

The average trade and bills receivables turnover days remain steady at approximately 38 days (2011: 39 days) for the year ended 31 December 2012 as the Group has put effort on controlling the accounts receivables.

Trade and bills payables

Trade and bills payables decreased slightly to approximately RMB42.6 million (2011: RMB43.9 million) as at 31 December 2012.

The average turnover days for trade and bills payables decreased to approximately 44 days (2011: 62 days) for the year ended 31 December 2012 which were in line with the trade credit periods given by the suppliers of the Group. Decrease in the balance of trade and bills payables and average turnover days were mainly due to the intention of the management to keep less inventory, which led to a decrease on the average payable balance over the year.

MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity and financial resources

The Group's principal sources of working capital included cash flow generated from the sale of its products. As at 31 December 2012, the Group's current ratio (current assets divided by current liabilities) was approximately 1.54 (as at 31 December 2011: 1.43). As at 31 December 2012, the Group had cash and cash equivalents of approximately RMB24.1 million (as at 31 December 2011: RMB63.7 million) and short-term interest-bearing borrowings of approximately RMB31.6 million (as at 31 December 2011: RMB62.7 million). As at 31 December 2012, the Group's gearing ratio (calculated as the total debts as at year end divided by total assets as at year end x 100%, while debts are defined to include current and non-current interest-bearing borrowings) was approximately 9.5%, as compared to 20.5% as at 31 December 2011.

As at 31 December 2012, the Group had variable rate bank loans of approximately RMB26.6 million (2011: RMB68.7 million) and fixed-rate bank loans of approximately RMB5.0 million (2011: nil) respectively. The effective interest rates on the Group's variable-rate and fixed-rate bank borrowings ranged from approximately 6.00% to 8.96% per annum (2011: 6.56% to 9.31% per annum) and at approximately 5.60% per annum (2011: nil) respectively as at 31 December 2012. During the year under review, there was no material change to the Group's funding and treasury policy.

The majority of the Group's funds have been deposited in banks in the PRC and licensed banks in Hong Kong. The management believes that the Group possesses sufficient cash and cash equivalents to meet its commitments and working capital requirements in the next financial year.

The Group continues to implement prudent financial management policies and monitor its capital structure based on the ratio of total liabilities to total assets.

Interest rate and foreign currency exposure

The Group's fair value interest rate risk relates primarily to its fixed rate interest-bearing borrowings and the Group is also exposed to cash flow interest rate risk in relation to variable rate interest-bearing borrowings. The restricted bank deposits and bank balances also expose the Group to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on bank balances. The Group historically has not used any financial instruments to hedge potential fluctuations in interest rates. The management considers that the exposure of the restricted bank deposits and bank balances to cash flow interest rate risk is not significant as the Group does not anticipate significant fluctuation in the interest rate on bank deposits. To mitigate the impact of interest rate fluctuations, the Group manages the interest expenses by financing with both fixed and variable rate debts, and will continually assess and monitor the Group's exposure to interest rate risk and consider other necessary actions when significant interest rate exposure is anticipated.

The Group is exposed to foreign currency risk. A significant proportion of the Group's revenue is denominated in USD and certain trade and other receivables, cash and bank balances, trade and other payables and interest-bearing borrowings are denominated in USD, Japanese yen and HKD respectively, while substantial operating expenses are denominated in RMB, and the Group's reporting currency is RMB.

The Group does not have a foreign currency hedging policy. In the event of currency fluctuations, the Group may have to increase its product pricing to compensate for the increase in cost of production. This would lower the Group's market competitiveness, on a price basis, for its products and could result in a decrease in revenue. In the future, the management will monitor foreign exchange exposure and will consider hedging or factoring significant foreign currency exposure should the need arise.

Contingent liabilities

As at 31 December 2012, the Group had no material contingent liabilities.

Charges on Group's assets

As at 31 December 2012, the Group's bills payables and bank loans were secured by the Group's machinery, buildings and land use rights of carrying amounts of RMB10.8 million, RMB22.5million and RMB11.4 million, respectively (as at 31 December 2011: RMB12.4 million, RMB35.7 million and RMB13.3 million, respectively). As at 31 December 2012, no Group's trade receivables (as at 31 December 2011: RMB21.5 million) were pledged to secure the bank loans granted to the Group. The Group also pledged its bank deposits of RMB3.8 million (as at 31 December 2011: RMB8.7 million) to secure short-term bank loans and short-term bills payables.

HUMAN RESOURCES

As at 31 December 2012, the Group employed approximately 1,701 employees. Key components of the Group's remuneration packages include basic salary, medical insurance, discretionary cash bonus and retirement benefit scheme. The Group conducts periodic reviews for the employees and their salaries and bonuses are performance related. The Group has neither experienced any significant problems with its employees or disruptions to its operations due to labour disputes, nor has it experienced any difficulties in the recruitment and retention of experienced employees. The Group maintains a good relationship with its employees.

FINAL DIVIDEND

The Board has recommended the payment of a final dividend of HK3.5 cents per share of the Company for the year ended 31 December 2012 (2011: Nil) representing a payout ratio of 30.5% of profit attributable to shareholders. Subject to the approval of shareholders at the forthcoming annual general meeting, the final dividend will be payable on or about Monday, 10 June 2013 to shareholders whose names appear on the register of members of the Company on Friday, 31 May 2013.

MANAGEMENT DISCUSSION AND ANALYSIS

MATERIAL ACQUISITIONS AND DISPOSALS

The Group did not engage in any material acquisitions or disposals during the year ended 31 December 2012.

PROSPECTS

It is expected that the textile industry will gradually recover along with the recovery of the global economy, and the development of the textile industry will remain stable in the near future. The textile industry in China is expected to have an outstanding performance as its huge domestic demand will be the main driver for the development of the textile industry. Meanwhile, the "12th Five-Year Development Plan of Textile Industry" has been formulated to improve the international trade structure and includes plans to actively explore the emerging markets, which will continue to promote the export trade of the China textile industry. Thus, the textile export enterprises in China will benefit from the national policy and achieve rapid growth. At the same time, there will be fierce market competition in China.

Facing the complex and volatile market condition, the Group believes its current market position and good reputation, especially its leading research and development in fabrics as well as its exclusive production and sales rights of the international brand, will ensure that the Group can further expand and strengthen its position in the Mainland market. The Group will grasp the huge business opportunities in the textile and apparel production industry brought by the Chinese consumer market, and seek for an operation breakthrough in the Mainland market.

Overseas market continues to be the core market of the Group. Currently, the Group's products are primarily exported to Japan and the United States. As the reputation of the Group's brand widely spreads across the world, it is expected that more new customers in existing and other overseas markets will be attracted. The Group will continue to maintain its sales to Japan and United States markets to ensure that stable amount of orders are acquired. Meanwhile, the Group will develop its relationship with new customers, further expand to new markets such as Europe and Korea, and plan for the brand promotion of the Company.

In order to effectively leveraging the advantages of the Group's vertically-integrated operation to readily grasp market opportunities and maintain the stable growth of the Group, the Group will continue to invest in advanced equipment and sophisticated technology to further improve its production capacity and product quality, optimise production processes, increase production efficiency and reduce operating costs. The production capacity expansion will be conducted in line with the Group's development. The Group is looking to achieve significantly greater economies of scale brought by its expansion in the future.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. WONG Kin Ling (王建陵) aged 59, is the Chairman and co-founder of the Group. Mr. Wong is primarily responsible for the overall corporate strategies, planning, management and business development of the Group.

Mr. Wong was initially appointed as a Director of the Company in December 2010 and was subsequently designated as an executive Director in August 2011. Mr. Wong has been the chairman of Zhucheng Eternal Knitting Company Limited, Zhucheng Yumin Knitting Company Limited and Shandong Grand Concord Garment Company Limited, all of which are the subsidiaries of the Group, since their establishment. He is the spouse of the executive Director, Madam Hung Kin.

Mr. Wong is a committee member of the 11th Session of Chinese People's Political Consultative Conference in Weifang, Shandong (中國人民政治協商會議山東省濰坊市第十一屆委員會委員). Mr. Wong was awarded as one of the "Ten Best Committee Members" by the Committee of the Communist Party of China in Zhucheng, Shandong (中共諸城市委) in 2009, and is also an Honorary Citizen of Zhucheng, Shandong, PRC (諸城榮譽市民). He was appointed the vice president and the standing member of the Knitwear Exporting Enterprises Branch of the Shandong International Trade Federation (山東省國際貿易聯合會針織品出口企業分會) in 2008. He was honoured as an Executive Textile Entrepreneur of Shandong Province under the Eleventh Five-Year Plan ("十一五"山東紡織優秀創業企業家) and a Model Worker of Zhucheng City (諸城市勞動模範) in 2011.

Madam HUNG Kin (洪建), aged 59, is the executive Director and co-founder of the Group. Madam Hung is primarily responsible for the daily management and operations of the Group, including financial management and accounting matters. Madam Hung obtained certificates in statistics (統計專業單科合格證書) between 1985 to 1988 by attending Jiangsu Provincial Self-Learning Higher Education Examinations (江蘇省高等教育自學考試) organised by Jiangsu Provincial Education Examination Authority (江蘇省教育考試院).

Madam Hung has been the director of Zhucheng Eternal Knitting Company Limited, Zhucheng Yumin Knitting Company Limited and Shandong Grand Concord Garment Company Limited, all of which are the subsidiaries of the Group, since their establishment.

Madam Hung was initially appointed as a Director of the Company in December 2010 and was subsequently designated as executive Director in August 2011. She is the spouse of the chairman and executive Director, Mr. Wong Kin Ling.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Mr. WANG Shao Hua (王韶華), aged 45, is an executive Director of the Company. Mr. Wang has over 21 years of experience in the knitting industry. He has been the general manager of Zhucheng Eternal Knitting Company Limited since May 2004 and was also appointed as its director in December 2009.

Mr. Wang graduated from Shandong Textile Industry School (山東省紡織工業學校) and obtained his junior college degree in textile (針織專業大學專科) in July 1987. He completed the part-time course in Shandong Provincial Party School of the Communist Party of China (中共山東省委黨校) during September 1993 to June 1996 in economic management and obtained his certificate.

He is also a director of Zhucheng Yumin Knitting Company Limited since November 2004 and a director of Shandong Grand Concord Garment Company Limited since its establishment.

Mr. Wang was initially appointed as a Director of the Company in August 2011 and was subsequently designated as an executive Director in August 2011.

Mr. WEI Jin Long (衛金龍), aged 41, is an executive Director of the Company. Prior to his joining our Group, he was a deputy general manager of a company in the PRC principally engaged in trading of fabrics and garment from January 2007 to March 2009. Mr. Wei also has over 9 years of experience in the knitting and dyeing industry, and has engaged in the production, management and sales process of such industry. Mr. Wei obtained his certificate in business administration from Xi'an University of Science and Technology (西安電子科技大學) in 2011 through distance learning.

Mr. Wei was initially appointed as a Director of the Company in August 2011 and was subsequently designated as an executive Director in August 2011.

In addition to his directorship with the Company, he has also been the general manager of Zhucheng Yumin Knitting Company Limited since April 2009.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. WANG Jin Tang (王金堂), aged 54, is currently the vice president of the People's Political Consultative Conference (政治協商會議) of Zhucheng City. Mr. Wang Jin Tang has over 21 years of experience in accounting and finance. He obtained bachelor's degree in economic management from the Shandong Provincial School of the Chinese Communist Party (中共山東省委黨校) in 1998 and has thereafter obtained the qualification as a senior accountant in 2002. In May 2001 he was appointed as the president in the Finance Bureau of Zhucheng City (諸城市財政局).

Mr. Wang was appointed as an independent non-executive Director of the Company in August 2011.

Ms. TAY Sheve Li (鄭雪莉), aged 40, has over 14 years of experience in accounting and auditing. She worked at Ernst & Young as a senior manager in audit assurance from November 1997 to September 2007 and as a senior manager in finance from October 2007 to September 2010. Ms. Tay has been appointed as an independent non-executive director of China Outdoor Media Group Limited (stock code: 254) in November 2011 and the president of finance and capital management department in Centron Telecom International Holding Limited (stock code: 1155) from October 2010 to June 2011, both companies are listed on the Main Board of the Stock Exchange.

Ms. Tay has been a certified public accountant of the Hong Kong Institute of Certified Public Accountants and the fellow of Association of Chartered Certified Accountants since 2002. She graduated from the University of Strathclyde, United Kingdom, in 1994 with a bachelor's degree in arts. In 2004, she obtained a master's degree in applied finance from University of Western Sydney.

Ms. Tay was appointed as an independent non-executive Director of the Company in August 2011.

Dr. CHAN Ah Pun (陳亞彬), aged 37, was a visiting lecturer of apparel technology at the Hong Kong Polytechnic University from 2009 to 2011. He obtained a Ph.D. in 2005, with research areas in garment fitting and pattern fitting, and a first class honours bachelor's degree in clothing studies in 2000, both from the Hong Kong Polytechnic University. Dr. Chan was also a co-author for a number of academic journals in the area of clothing science and technology.

He has been the executive director of Miracle International Corporation Limited since 2009. From 2006 to 2009, Dr. Chan was the operations manager of ACE Style Intimate Apparel Limited, a company engaging in the business of underwear manufacturing, where Dr. Chan was responsible for its budget, production planning, process and quality control, as well as its production and quality assurance management. From 2005 to 2006, he was the production manager of Tavistock Springs (HK) Limited, where he was responsible for production management and monitoring the business of bra pad molding.

Dr. Chan was appointed as an independent non-executive Director of the Company in August 2011.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. Lee Yin Sing (李彥昇), aged 32, is the Chief Financial Officer and Company Secretary. Mr. Lee is responsible for overseeing the Group's financial planning and management. Mr. Lee has over 9 years of experience in finance control and accounting through his prior employments. He acquired auditing experience through his prior employment with an audit firm of international repute from 2002 to 2007. Prior to joining the Group as its chief financial officer in August 2010, he worked as the financial manager of Proview International Holdings Limited, a company listed on the Main Board of the Stock Exchange (stock code: 334), in 2009 during which he acquired experience in finance control, accounting and company secretarial matters. Mr. Lee graduated from the City University of Hong Kong in 2002 with a bachelor's degree in accounting. He has been a member of the Hong Kong Institute of Certified Public Accountants since 2008.

Mr. LIU Xin De (劉心德), aged 46, is a director of Zhucheng Eternal Knitting Company Limited and Zhucheng Yumin Knitting Company Limited. Mr. Liu is responsible for product management and equipment administration of Zhucheng Yumin Knitting Company Limited. He joined Zhucheng Eternal Knitting Company Limited in March 2001 as merchandiser and was promoted as an office manager in June 2003. Mr. Liu obtained his bachelor's degree in national economic management from Shandong University (山東大學) in July 1989.

Ms. JI Tai Mei (季太梅), aged 43, is the deputy general manager in charge of product management of Zhucheng Eternal Knitting Company Limited. Prior to her appointment as the deputy general manager in April 2010, she served as the head of product planning department and concurrently as the assistant of general manager of Zhucheng Eternal Knitting Company Limited from June 2004 until April 2010. Prior to joining the Group, she worked for Shandong Lanfeng Knitting Group Co. Ltd. (山東蘭鳳針織集團) from September 1989 to May 2004 and assumed the position of manager of the garment workshop from July 1999. Ms. Ji obtained her junior college degree in accounting from Shandong TV University (山東廣播電視大學) in July 1994.

Ms. ZHOU Li (周麗), aged 40, is the deputy general manager of Zhucheng Eternal Knitting Company Limited. Prior to her appointment as the deputy general manager in April 2010, she served as the sales manager of Zhucheng Eternal Knitting Company Limited since December 2005 and was also appointed as assistant of general manager of Zhucheng Eternal Knitting Company Limited on 15 August 2007. Before her engagement with the Group, she worked for Shandong Lanfeng Knitting Group Co. Ltd. (山東蘭鳳針織集團) from August 1992 to October 2005 and was the deputy general manager of import and export department before she left the same. Ms. Zhou graduated from Shandong Textile Industry School (山東省紡織工業學校) and obtained her degree of secondary vocational school diploma in textile on July 1992. She also obtained junior college degree in economic management (經濟管理大學專科) after completing the 3-year distance learning course from Shandong Cadres Correspondence College (山東省幹部函授大學) in June 1996.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Board is pleased to present this report in the Group's annual report for the year ended 31 December 2012.

The Company places high value on its corporate governance practice and the Board firmly believes that a good corporate governance practice can improve accountability and transparency for the benefit of its shareholders. On 1 April 2012, the Code on Corporate Governance Practices ("**Former CG Code**") as set out in the Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") was amended and renamed as Corporate Governance Code and Corporate Governance Report ("**New CG Code**"). The Company has adopted the code provisions and certain recommended best practices as set out in the New CG Code as the code of the Company in substitution for and to the exclusion of the Former CG Code with effect from 27 March 2012. The Board also reviews and monitors the practices of the Company from time to time with an aim to maintain and to improve high standards of corporate governance practices. During the year ended 31 December 2012, the Company has complied with the code provisions (the "**Code Provisions**") set out in both the Former CG Code and the New CG Code, except for the deviation set out as below:

Code Provision A.2.1

The Code Provision A.2.1 provides that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing.

At present, the Company does not have any officer with the title of chief executive officer. The duties of the chief executive officer are undertaken by Mr. Wong Kin Ling. Although this deviates from the practice under the Code Provision A.2.1, where the two positions should be held by two different individuals, as Mr. Wong Kin Ling has considerable and extensive knowledge and experience in the industry and in enterprise operation and management in general, the Board believes that it is in the best interest of the Company and its shareholders as a whole to continue to have Mr. Wong Kin Ling as an executive chairman so the Board can benefit from his knowledge of the business and his capability in leading the Board in the long term development of the Group. From a corporate governance point of view, the decisions of the Board are made collectively by way of voting and therefore the Chairman should not be able to monopolise the voting result. The Board considers that the balance of power between the Board and the senior management can still be maintained under the current structure. The Board shall review the structure from time to time to ensure appropriate action is taken should the need arise.

CORPORATE GOVERNANCE REPORT

Code Provision A.6.7

Under code provision A.6.7, independent non-executive Directors should attend general meetings and develop a balanced understanding of the views of shareholders.

The independent non-executive Director, Mr. Wan Jin Tang was unable to attend the annual general meeting of the Company held on 28 May 2012 as provided for in code provision A.6.7 as he had other important business engagements at the relevant time.

Model Code For Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding Directors' securities transactions. The Company confirms that, having made specific enquiry of all the Directors, the Directors have complied with the required standards as set out in the Model Code during the year ended 31 December 2012.

BOARD

Responsibilities

The Board is responsible for leading and controlling the Company and overseeing the Group's businesses, strategic decisions and financial performances. The management is delegated the authority and responsibility by the Board for the management of the Group under the leadership of the chief executive officer. In addition, the Board has also delegated various responsibilities to the Audit Committee, the Remuneration Committee and the Nomination Committee (collectively the "**Committees**"), which assist the Board in discharging its duties and overseeing particular aspects of the Group's activities.

The day-to-day management, administration and operation of the Company are delegated to the chairman and the senior management, with division heads responsible for different aspects of the business.

Major corporate matters that are specifically delegated by the Board to the senior management include preparation of interim and annual reports and announcements, execution of business strategies and initiatives adopted by the Board, implementation of adequate systems of internal controls and risk management procedures and compliance with relevant laws, rules and regulations.

The Company had arranged for appropriate liability insurance for the Directors and officers of the Group for indemnifying their liabilities arising from corporate activities.

Composition

The composition of the Board reflects the necessary balance of skills and experience desirable for effective leadership of the Company and independence in decision making.

The Board currently comprises four executive Directors, namely Mr. Wong Kin Ling, Madam Hung Kin, Mr. Wang Shao Hua and Mr. Wei Jin Long and three independent non-executive Directors, namely Mr. Wang Jin Tang, Ms. Tay Sheve Li and Dr. Chan Ah Pun. The biographies of the Directors are set out under the section headed "Biographies of Directors and Senior Management" of this annual report.

The independent non-executive Directors bring a wide range of business and financial expertise, experience and independent judgment to the Board. Through active participation in Board meetings, taking the lead in managing issues involving potential conflict of interests and serving on Board committees, all non-executive Directors make various contributions to the effective direction of the Company.

Save as disclosed, the Board members have no financial, business, family or other material/relevant relationships with each other. Such balanced board composition is formed to ensure that strong independence exists across the Board.

During the year ended 31 December 2012 and up to the date of this report, the Board has at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications, or accounting or related financial management expertise.

The Company has received annual confirmation of independence from the three independent non-executive Directors. The Board has assessed their independence and is satisfied that all the independent non-executive Directors are in full compliance with the independence guidelines set out in Rule 3.13 of the Listing Rules.

The term of office for the independent non-executive Directors is subject to retirement from office by rotation and is eligible for re-election in accordance with the provisions of the Company's articles of association. At every annual general meeting, one-third of the Directors for the time being, or if their number is not three or a multiple of three, then the number nearest to but not less than one-third shall retire from office. As such, the Company considers that such provisions are sufficient to meet the underlying objectives of the relevant provisions of the Corporate Governance Code.

CORPORATE GOVERNANCE REPORT

Training for Directors

Every newly appointed Director shall receive an information package from the Company on the first occasion of his appointment. This information package is a comprehensive, formal and tailored induction on the responsibilities and on-going obligations to be observed by the Director. In addition, the package includes materials on the operations and business of the Group. The Company will subsequently arrange for briefing as is necessary to ensure that the newly appointed Directors have a proper understanding of the business and operations of the Group and that they are aware of their responsibilities under the relevant laws, rules and regulations.

The Directors are regularly briefed on the amendments to or updates on the relevant laws, rules and regulations. In addition, Directors are encouraged to enroll and attend in a wide range of professional development courses and seminars relating to the Listing Rules and corporate governance practices organised by professional bodies so that they can continuously update and further improve their relevant knowledge and skills. From time to time, Directors are provided with written training materials to develop and refresh their professional skills.

According to the records maintained by the Company, the Directors received the following training with an emphasis on the roles, functions and duties of a director of a listed company in compliance with the Code Provisions on continuous professional development during the year ended 31 December 2012:

	Corporate governance practices, regulatory and related topics		Business, management and related topics	
	Circulated Materials	Attended Seminars/ Briefing	Circulated Materials	Attended Seminars/ Briefing
Executive Directors				
Mr. Wong Kin Ling	✓	✓	✓	✓
Madam Hung Kin	✓	✓	✓	✓
Mr. Wang Shao Hua	✓	✓	✓	✓
Mr. Wei Jin Long	✓	✓	✓	✓
Independent non-executive Directors				
Mr. Wang Jin Tang	✓	✓	✓	✓
Ms. Tay Sheve Li	✓	✓	✓	✓
Dr. Chan Ah Pun	✓	✓	✓	✓

Board meetings

Board meetings are held regularly, at least four times a year at approximately quarterly intervals for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company. The attendance record of each member of the Board is set out in the section headed "Board Committees".

The Chairman of the Board has held 2 meetings with all the independent non-executive Directors without the presence of other executive Directors to discuss the Company's business during the year under review.

All Directors have access to the advice and services of the Company Secretary. All Directors have access to the senior management for enquiries and information when required. The Directors, upon reasonable requests, may also seek independent professional advice at the Company's expense.

Practices and conduct of meetings

Draft agenda of all Board meetings are made available to the Directors in advance.

Where practicable, notices of regular Board meetings and Committee meetings are served on all Directors at least 14 days before the meetings. Board papers are sent to all Directors at least 3 days before each Board meeting or Committee meeting to keep the Directors apprised of the latest developments and the financial position of the Company and to enable them to make informed decisions.

The Company Secretary is responsible for keeping minutes of all Board meetings and Committee meetings. Draft minutes are normally circulated to the Directors for comments within a reasonable time after each meeting and the final version is open for Directors' inspection.

According to current Board practice, any material transaction involving conflict of interests of a substantial shareholder or a Director will be considered and dealt with by the Board at a duly convened Board meeting. The Company's articles of association also contain a provision requiring the Directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such Directors or any of their associates (as defined under the Listing Rules) have a material interest.

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES

The Board established the Audit Committee and Remuneration Committee on 19 August 2011 with clearly defined written terms of reference (as amended on 27 March 2012) and the Nomination Committee on 27 March 2012 with clearly-defined written terms of reference. The main roles and responsibilities of the Committees, including all authorities delegated to them by the Board, are set out in the respective terms of reference. The independent views and recommendations of the Committees ensure proper control of the Group and the continual achievement of high corporate governance standards expected of a listed company. The chairman of each Committee reports the outcome of the Committee's meetings to the Board for further discussions and approvals.

The majority of the members of each Committee are independent non-executive Directors. The Committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice at the Company's expenses.

The individual attendance records of each Director at the meetings of the Board, Audit Committee, Remuneration Committee, Nomination Committee and general meeting during the year ended 31 December 2012 are set out below:

	Number of meetings attended/held				
	Board	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**	**Annual General Meeting**
Executive Directors					
Mr. Wong Kin Ling	4/4	–	1/1	1/1	1/1
Madam Hung Kin	4/4	–	–	–	–/1
Mr. Wang Shao Hua	4/4	–	–	–	–/1
Mr. Wei Jin Long	4/4	–	–	–	–/1
Independent non-executive Directors					
Mr. Wang Jin Tang	2/4	2/2	1/1	–	–/1
Ms. Tay Sheve Li	4/4	2/2	1/1	1/1	1/1
Dr. Chan Ah Pun	4/4	2/2	1/1	1/1	1/1

Audit Committee

The Audit Committee (the "**Audit Committee**") comprises three independent non-executive Directors, Mr. Wang Jin Tang, Ms. Tay Sheve Li and Dr. Chan Ah Pun. The Audit Committee is chaired by Ms. Tay Sheve Li, who possesses the appropriate professional qualifications and extensive experience in, and knowledge of, finance and accounting as required under Rule 3.10 of the Listing Rules. All Audit Committee members hold the relevant industry and financial experience necessary to advise the Board on strategies and other related matters. None of the Audit Committee members is a former partner of the Company's existing external auditors.

The Audit Committee is responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditors, and approving the remuneration and terms of engagement of the external auditors, and any questions of resignation or dismissal of those auditors; monitoring the integrity of the financial statements, the annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and reviewing significant financial reporting judgments contained in them; and reviewing the financial controls, internal control and risk management systems.

The Group's audited annual financial statements and annual report for 2012 had been reviewed by the Audit Committee, which was of the opinion that the preparation of such statements and report complied with the applicable accounting standards and requirements and that adequate disclosure had been made.

The Audit Committee has not taken any different view from the Board regarding the selection, appointment, resignation or dismissal of the external auditors.

At the Committee meeting held on 25 March 2013, the Audit Committee concluded that it was satisfied with its review of the audit fee, process and effectiveness, independence and objectivity of SHINEWING (HK) CPA Limited. The Audit Committee has therefore made the recommendation to the Board that SHINEWING (HK) CPA Limited be reappointed as the Group's external auditors at the forthcoming annual general meeting.

The Audit Committee met 2 times during the year ended 31 December 2012, in which the Audit Committee members reviewed the Company's internal controls and risk management process, financial reporting and compliance procedures, financial results and reports and assessed the external auditors for re-appointment. The Audit Committee meeting was attended by the Audit Committee members, the chief financial officer and the external auditors. The attendance record of each member of the Audit Committee is set out in the section headed "Board Committees".

CORPORATE GOVERNANCE REPORT

Remuneration Committee

The Remuneration Committee (the "**Remuneration Committee**") comprises three independent non-executive Directors, Mr. Wang Jin Tang, Ms. Tay Sheve Li and Dr. Chan Ah Pun and one executive Director, Mr. Wong Kin Ling. The Remuneration Committee is chaired by Mr. Wang Jin Tang. The Remuneration Committee is responsible for, among other functions, making recommendations to the Board on the policy and structure for all remuneration of the Directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration; determining the specific remuneration packages of all the executive Directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and making recommendations to the Board of the remuneration of the non-executive Directors; and reviewing and approving performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time.

The Remuneration Committee met 1 time during the year ended 31 December 2012, in which the Remuneration Committee members reviewed the existing remuneration policy and structure of the Company and the remuneration packages and discretionary bonus of the Directors and senior management for 2012 and made recommendation to the Board to approve the proposals on the fees of the non-executive Directors. The attendance record of each member of the Remuneration Committee is set out in the section headed "Board Committees".

Nomination Committee

The Nomination Committee (the "**Nomination Committee**") comprises two independent non-executive Directors, Dr. Chan Ah Pun and Ms. Tay Sheve Li; and one executive Director, Mr. Wong Kin Ling. The Nomination Committee is chaired by Dr. Chan Ah Pun.

The Nomination Committee is responsible for formulating the nomination policy for consideration of the Board and implementing the nomination policy laid down by the Board; reviewing the structure, size and composition of the Board at least annually and making recommendations on any proposed changes to the Board to complement the Company's corporate strategy; identifying and nominating individuals suitable qualified to become the members of the Board and selecting or making recommendations to the Board on the selection of individuals nominated for directorships; assessing the independence of independent non-executive Directors; making recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors; and conforming to any requirement, direction, and regulation that may from time to time be prescribed by the Board or contained in the memorandum and articles of association of the Company or imposed by legislation.

During the year ended 31 December 2012, 1 meeting was held by the Nomination Committee. The major work performed by the Committee during the year included reviewing the Nomination Committee's terms of reference, reviewing the structure, size and composition of the Board, reviewing the policy relating to term of appointment of the independent non-executive Directors, accessing the independence of the independent non-executive Directors, and recommending to the Board for approval of the continuation of the independent non-executive Directors' term of appointment. The attendance record of each member of the Nomination Committee is set out in the section headed "Board Committees".

Company Secretary

The company secretary of the Company (the "**Company Secretary**"), namely Mr. Lee Yin Sing is a full time employee of the Company and has day-to-day knowledge of the Company's affairs. The Company Secretary reports to the Chairman and is responsible for advising the Board on governance matters. During the year ended 31 December 2012, the Company Secretary has confirmed that he has taken no less than 15 hours of relevant professional training. The details of the Company Secretary are set out under the section headed "Biographies of Directors and Senior Management" of this annual report.

RESPONSIBILITIES IN RESPECT OF FINANCIAL STATEMENTS

The senior management has provided such explanation and information to the Board so as to enable the Board to make an informed assessment of the financial and other information put before the Board for approval.

The Board is responsible for presenting a clear and balanced view of the Company's annual and interim reports, and inside information announcements, disclosures made pursuant to the Listing Rules, and other regulatory requirements. The Directors acknowledge their responsibility for preparing the financial statements for the year 2012.

AUDITORS' REMUNERATION

During the year under review, the remuneration paid/payable to the external auditors of the Company in respect of statutory audit service, agreed-upon procedures and tax service were approximately RMB696,000, RMB189,000 and RMB18,000, respectively.

CORPORATE GOVERNANCE REPORT

INTERNAL CONTROL

The Board is responsible for internal control of the Group and for reviewing its effectiveness. The Board requires the senior management to establish and maintain sound and effective internal controls.

The internal control framework includes central direction, resources allocation and risk management of the activities of various business units, supported by the human resources, information systems and financial practice. As such, the Group has a clear organisational structure including appropriate segregation of duties and reporting systems. Limits of authorities have been established. Starting from the top, there is a list of matters reserved for Board approval. In carrying out key functions, senior management personnel are assigned levels of authority and accountability commensurate with their positions and duties. There are also relevant policies and procedures applicable to all business units to guide their business operations. All business units are required to produce annual budgets for the senior management's approval. The heads of all business units are required to assess the risk factors attributed to their businesses. In addition, all business units shall submit monthly management reports with comparisons between actual and budget results and give explanations and solutions for major variances.

Extensive financial controls, procedures, self-assessment exercises and risk activities are reviewed by the Group's finance department, which is responsible for reviewing the Group's internal control systems, operational efficiency and compliance with the policies and procedures on a regular basis, and ensuring existence of an effective internal control system in all business units. The finance department performs independent reviews of risks associated with and controls over principal operations and critical applications, and reports to the Audit Committee with its findings and makes recommendations to improve the internal controls of the Group.

All key controls within the framework will be tested periodically by the finance department. External auditors will also test key controls for those processes which are most critical to producing complete and accurate financial reports. Semi-annual confirmations from chief executives of principal subsidiaries are obtained as to whether the internal controls are working properly and if any remedial actions are required on areas where control weaknesses are noted. External auditors also advise the senior management on whether the controls are in place and effective to ensure a proper financial controlling and reporting process of the Group.

With respect to the procedures and internal controls for the handling and dissemination of price-sensitive information, the Group conducts its affairs with close attention to the "Guide on Disclosure of Price-Sensitive Information" issued by the Stock Exchange, and has also implemented guidelines and procedures for dealings in its securities by the Directors.

During the year 2012, the Board, through the Audit Committee, had conducted review on the effectiveness of the internal control system of the Company, and considered the internal control system to be effective and adequate and concluded that there were no significant areas of concern which might affect shareholders' interests.

COMMUNICATIONS WITH SHAREHOLDERS

The Group reports to its shareholders twice a year. Interim and annual results are announced as early as possible to keep shareholders informed of the Group's performance. The general meetings of the Company provide a forum for communication between the shareholders and the Board. All shareholders are encouraged to attend the annual general meeting to discuss the progress of the Group's business. The chairman of the Board and the chairmen of the Audit Committee, the Nomination Committee and the Remuneration Committee, or in their absence, other members of the respective Committees, and where applicable, the independent Board committee, are available to answer questions at the general meetings. Separate resolutions are proposed at the general meetings on each substantial issue, including re-election of Directors. The Company's website, which contains corporate information, interim and annual reports, announcements and circulars issued by the Company as well as the recent developments of the Group, enables the shareholders to access information on the Group on a timely basis.

There are no changes made to the Company's Memorandum and Articles of Association during the year 2012.

Shareholders' Rights

Convening an extraordinary general meeting

Pursuant to article 10.3 of the articles of association of the Company, extraordinary general meetings of the Company (the "**EGM(s)**") shall also be convened on the written requisition of any two or more members of the Company deposited at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office specifying the objects of the meeting and signed by the requisitionists, provided that such requisitionists held as at the date of deposit of the requisition not less than one-tenth of the nominal value of the issued shares in the Company which carries the right of voting at general meetings of the Company. The EGMs may also be convened on the written requisition of any one member of the Company which is a recognised clearing house (or its nominee(s)) deposited at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office specifying the objects of the meeting and signed by the requisitionist, provided that such requisitionist held as at the date of deposit of the requisition not less than one-tenth of the nominal value of the issued shares in the Company which carries the right of voting at general meetings of the Company. If the Board does not within 21 days from the date of deposit of the requisition proceed duly to convene the meeting to be held within a further 21 days, the requisitionists(s) themselves or any of them representing more than one-half of the total voting rights of all of them, may convene the EGM in the same manner, as nearly as possible, as that in which meetings may be convened by the Board provided that any meeting so convened shall not be held after the expiration of three months from the date of deposit of the requisition, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed the them by the Company.

CORPORATE GOVERNANCE REPORT

Putting enquiries to the Board

Shareholders may at any time make a request for the Company's information to the extent such information is publicly available. Any such questions shall be first directed to the Company Secretary at the Company's head office and principal place of business in Hong Kong or the Company's Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited, at 26/F, Tesbury Centre, 28 Queen's Road East, Wan Chai, Hong Kong.

Shareholders may at any time raise any enquiry in respect of the Company via email at the email address of the Company at ir@grandconcord.com

Shareholders are reminded to lodge their questions together with their detailed contact information in order to receive prompt response from the Company if it deems such response to be appropriate.

Putting forward proposals at Shareholders' meeting

Shareholders can put forward proposed resolution at a general meeting of the Company by lodging a written notice of his/her/its proposal ("**Proposed resolution**") with his/her/its detailed contact information via email at the email address of the Company at ir@grandconcord.com

The identity of the Shareholder and his/her/its request will be verified with the Company's branch share registrar in Hong Kong and upon confirmation by the branch share registrar that the request is proper and in order and made by a Shareholder, the Board will determine in its sole discretion whether the Proposed resolution may be included in the agenda for the general meeting to be set out in the notice of meeting.

The notice period shall not be less than 21 days in writing if the Proposal requires approval by way of an ordinary resolution in an annual general meeting or a special resolution of the Company; and not less than 14 days in writing if the Proposed resolution requires approval in meeting other than an annual general meeting or approval by way of a special resolution of the Company.

Shareholders or investors may also enquire by putting their Proposed resolutions with the Company through the following means:

Hotline no.: 2891 9882

By post: Units 1108 – 1109, 11/F Tower II, Enterprise Square, 9 Sheung Yuet Road, Kowloon Bay, Kowloon, Hong Kong

By email: ir@grandconcord.com

REPORT OF THE DIRECTORS

The Directors are pleased to present the annual report and the audited consolidated financial statements of the Group for the year ended 31 December 2012.

CORPORATE INFORMATION AND GROUP REORGANISATION

The Company was incorporated in the British Virgin Islands with limited liability under the Business Companies Act of the British Virgin Islands (2004) on 8 December 2010.

Pursuant to a group reorganisation (the "**Group Reorganisation**") which rationalised the group structure in preparation for the listing of Company's shares, the Company became the holding company of the Group on 22 February 2011.

Details of the Group Reorganisation are set out in note 1 to the consolidated financial statements.

PRINCIPAL ACTIVITIES

The principal activities of the Group are engaged in the manufacturing of knitted fabrics and innerwear. Details of the principal activities of the Company's principal subsidiaries are set out in note 36 to the consolidated financial statements.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2012 and its state of affairs as at that date are set out in the consolidated financial statements on pages 43 to 111.

No interim dividend was paid during the year. The Directors recommend payment of a final dividend of HK3.5 cents per share of the Company for the year ended 31 December 2012. Subject to the approval of shareholders at the forthcoming annual general meeting, the final dividend will be payable on or about 10 June 2013 to shareholders whose names appear on the register of member of the Company on 31 May 2013.

USE OF PROCEEDS FROM LISTING

Net proceeds of approximately HKD38.4 million were raised from the initial public offering of the Company's shares in November 2011. The Company currently does not have any intention to change its plan for the use of proceeds as stated in the prospectus of the Company dated 14 November 2011 (the "**Prospectus**"). From the date of the Listing up to the date of this annual report, out of the total net proceeds from the Listing, approximately HKD19.2 million was utilised for upgrading and expanding the Group's manufacturing equipment and production plants to enhance its production efficiency. Approximately HKD4.4 million, HKD3.8 million and HKD0.8 million was utilised for expanding the sales channel, developing high-margin and innovative products and promoting brand name, respectively. Among the remaining proceeds of approximately HKD10.2 million, HKD3.8 million was utilized as working capital of the Group and the remaining amount was deposited in interest-bearing accounts of financial institutions in the PRC and Hong Kong.

REPORT OF THE DIRECTORS

FINANCIAL SUMMARY

A summary of the published results and assets and liabilities of the Group for the last five financial years is set out on page 112 of this annual report. This summary does not form part of the audited consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL AND SHARE OPTION SCHEME

Prior to the listing of the Company's shares, the Company had conditionally adopted a share option scheme (the "**Share Option Scheme**") on 19 August 2011 which became unconditional and effective on 24 November 2011. The purpose of the Share Option Scheme is to enable the Group to grant options to the Eligible Participants (as defined in the section headed "Share Option Scheme" in the Prospectus) as incentives or rewards for their contribution to the Group.

The Board may, at its absolute discretion, offer an option to the Eligible Participant to subscribe for the shares of the Company at an exercise price and subject to the other terms of the Share Option Scheme. The total number of shares of the Company which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of the Company shall not in aggregate exceed 38,000,000 shares of the Company, being 10% of the total number of shares of the Company in issue at the time dealings in the shares first commenced on the Stock Exchange.

The total number of shares of the Company issued and to be issued upon exercise of the options granted to or to be granted to each Eligible Participant under the Share Option Scheme and any other schemes of the Company or any of its subsidiaries (including exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the shares in issue. The Share Option Scheme will remain in force for a period of 10 years. Under the Share Option Scheme, each option has a 10-year exercise period. As at the date of this annual report, no option has been granted under the Share Option Scheme.

RESERVES

Details of the movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity.

DISTRIBUTABLE RESERVES

At 31 December 2012, the Company's reserves available for distribution amounted to approximately RMB14.7 million (as at 31 December 2011: Nil), of which a final dividend of HK3.5 cents per share of the Company amounting to approximately HK$13.3 million has been proposed for the year.

DIRECTORS

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

Executive Directors

Mr. Wong Kin Ling
Madam Hung Kin
Mr. Wang Shao Hua
Mr. Wei Jin Long

Independent non-executive Directors

Mr. Wang Jin Tang
Ms. Tay Sheve Li
Dr. Chan Ah Pun

In accordance with Article 14.18 of the Company's articles of association, three Directors will retire and be eligible to offer themselves for re-election at the forthcoming annual general meeting.

The Company has received from each independent non-executive Director an annual confirmation of his independence from the Group, and as at the date of this report still considers them to be independent pursuant to Rule 3.13 of the Listing Rules.

REPORT OF THE DIRECTORS

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and the senior management of the Group are set out on pages 17 to 20 of this annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service agreement with the Company for a term of three years commencing from 24 November 2011. The independent non-executive Directors, namely Mr. Wang Jin Tang, Ms. Tay Sheve Li and Dr. Chan Ah Pun, have been appointed for a term of two years commencing from 24 November 2011.

No Director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REMUNERATION

The Board has the general power of determining the Directors' remuneration, subject to authorisation of the shareholders of the Company at the annual general meeting each year. The remuneration of the executive Directors is subject to review by the Remuneration Committee, and their remuneration is determined with reference to the Directors' qualifications, experience, duties, responsibilities and performance and results of the Group. As for the independent non-executive Directors, their remuneration is determined by the Board, upon recommendation from the Remuneration Committee. Details of the emoluments of the Directors and the five highest paid individuals are set out in notes 13 and 14, respectively, to the consolidated financial statements.

DIRECTORS' INTERESTS IN CONTRACTS

No Director had a material beneficial interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2012, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571, laws of Hong Kong) ("**SFO**"), as recorded in the register kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

Name of Director	Capacity	Number of Shares [(1)]	Approximate percentage of shareholding
Mr. Wong Kin Ling [(2)]	Interest of controlled corporation	241,000,000 (L)	63.42%
Madam Hung Kin [(2)]	Interest of controlled corporation	241,000,000 (L)	63.42%
Mr. Wei Jin Long	Beneficial owner	24,000,000 (L)	6.31%
Mr. Wang Shao Hua	Beneficial owner	15,000,000 (L)	3.95%

Notes:

(1) The letter "L" denotes our Director's long position in the Shares.

(2) The issued shares of Global Wisdom Capital Holdings Limited are solely and beneficially owned by Mr. Wong Kin Ling and Madam Hung Kin, who are spouses, in equal shares. Accordingly, each of Mr. Wong Kin Ling and Madam Hung Kin is deemed under the SFO to be interested in all the Shares held by Global Wisdom Capital Holdings Limited.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year ended 31 December 2012 and up to the date of this annual report were rights to acquire benefits by means of acquisition of shares in or debentures of the Company granted to any Director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2012, to the best knowledge of the Directors, the records of interest (being 5% or more of the issued share capital of the Company, other than the Directors or the chief executive of the Company) as registered in the register kept by the Company under section 336 of the SFO were as follows:

Name	Capacity	Class and Number of Securities	Approximate percentage of shareholding
Global Wisdom Capital Holdings Limited [(2)]	Beneficial owner	241,000,000 Shares (L) [(1)]	63.42%

Notes:

(1) The letter "L" denotes the entity's long position in the Shares.

(2) The issued shares of Global Wisdom Capital Holdings Limited are solely and beneficially owned by Mr. Wong Kin Ling and Madam Hung Kin, who are spouses, in equal shares. Accordingly, each of Mr. Wong Kin Ling and Madam Hung Kin is deemed under the SFO to be interested in all the Shares held by Global Wisdom Capital Holdings Limited.

NON-COMPETITION UNDERTAKING BY CONTROLLING SHAREHOLDERS

The Company has received annual confirmations from the controlling shareholders, Mr. Wong Kin Ling, Madam Hung Kin and Global Wisdom Holdings Limited, in respect of their compliance with the non-competition undertaking. The independent non-executive Directors have reviewed the said undertaking and are of the view that Mr. Wong Kin Ling, Madam Hung Kin and Global Wisdom Holdings Limited have complied with the non-competition undertaking during the year ended 31 December 2012.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2012.

PRE-EMPTIVE RIGHTS

There were no provisions of pre-emptive rights under the Company's articles of association or the laws of the British Virgin Islands, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro-rata basis to its existing shareholders unless otherwise required by the Stock Exchange.

TAX RELIEF

The Company is not aware of any relief from taxation available to shareholders by reason of their holding of the Company's shares.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and to 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.

MAJOR SUPPLIERS AND CUSTOMERS

In the year under review, the Group's major supplier accounted for 13.5% (2011: 10.3%) of the Group's total purchases. The Group's five largest suppliers accounted for 36.9% (2011: 42.3%) of the Group's total purchases.

In the year under review, the Group's sale to its five largest customers accounted for 67.3% (2011: 59.9%) of the Group's total sale. The Group's largest customer accounted for 27.7% (2011:36.5%) of the Group's total sale.

None of the Directors or any of their associates (as defined under the Listing Rules) or any shareholders (which, to the best knowledge of the Directors, owns more than 5% of the Company's issued share capital) has any beneficial interest in the Group's five largest customers or five largest suppliers.

AUDIT COMMITTEE AND REVIEW OF FINANCIAL STATEMENTS

The Audit Committee was established on 19 August 2011 with written terms of reference in compliance with the Listing Rules. The Audit Committee is responsible for making recommendation to the Board on the appointment, reappointment and removal of the external auditors, and approving the remuneration and terms of engagement of the external auditors, and any questions of resignation or dismissal of that auditor; monitoring integrity of the financial statements, the annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and reviewing significant financial reporting judgments contained in them; and reviewing the financial controls, internal control and risk management systems.

REPORT OF THE DIRECTORS

The Audit Committee has reviewed with the management accounting principles and practices adopted by the Group and discussed the auditing, internal controls and financial reporting matters, including review of the audited consolidated financial statements of the Group for the year ended 31 December 2012.

The consolidated financial statements for the year ended 31 December 2012 have been audited by the Company's external auditors, SHINEWING (HK) CPA Limited.

CORPORATE GOVERNANCE

The Company has published its corporate governance report, which is set out on pages 21 to 32 of this annual report.

AUDITOR

During the year, SHINEWING (HK) CPA Limited were appointed as the external auditor of the Company.

A resolution will be submitted to the forthcoming annual general meeting of the Company to re-appoint SHINEWING (HK) CPA Limited as the external auditor of the Company.

On behalf of the Board

Wong Kin Ling
Chairman

Hong Kong, 25 March 2013

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF GRAND CONCORD INTERNATIONAL HOLDINGS LIMITED
(Incorporated in the British Virgin Islands with limited liability)

We have audited the consolidated financial statements of Grand Concord International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 43 to 111, which comprise the consolidated statement of financial position as at 31 December 2012, 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 judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

INDEPENDENT AUDITOR'S REPORT

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 2012 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
Wong Chuen Fai
Practising Certificate Number: P05589

Hong Kong
25 March 2013

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
Revenue	7	**475,764**	416,547
Cost of sales		**(359,673)**	(289,041)
Gross profit		**116,091**	127,506
Other income and gains	9	**1,215**	625
Selling and distribution expenses		**(14,219)**	(9,413)
Share-based payment	29	**–**	(5,800)
Administrative expenses		**(45,943)**	(57,938)
Finance costs	10	**(3,473)**	(5,944)
Profit before tax		**53,671**	49,036
Income tax expense	11	**(18,181)**	(19,852)
Profit for the year	12	**35,490**	29,184
Other comprehensive income for the year			
Exchange differences arising on translation of foreign operations		**(143)**	140
Total comprehensive income for the year		**35,347**	29,324
Earnings per share:			
– Basic and diluted (RMB)	16	**0.09**	0.09

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
Non-current assets			
Property, plant and equipment	17	**163,219**	128,786
Prepaid lease payments	18	**12,722**	13,019
Deposits paid to acquire non-current assets	19	**860**	2,190
Prepayment	23	**191**	150
Deferred tax assets	20	**570**	1,653
		177,562	145,798
Current assets			
Inventories	21	**47,460**	62,385
Trade and bills receivables	22	**64,939**	35,130
Prepayments and other receivables	23	**14,789**	18,149
Prepaid lease payments	18	**297**	297
Restricted bank deposits	24	**3,750**	8,700
Cash and bank balances	24	**24,134**	63,744
		155,369	188,405
Current liabilities			
Trade and bills payables	25	**42,649**	43,881
Accruals and other payables	26	**21,487**	17,098
Advance from customers		**631**	1,673
Interest-bearing borrowings	27	**31,645**	62,654
Income tax payables		**4,636**	6,361
		101,048	131,667
Net current assets		**54,321**	56,738
Total assets less current liabilities		**231,883**	202,536
Non-current liability			
Interest-bearing borrowings	27	**–**	6,000
Net assets		**231,883**	196,536

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
Capital and reserves			
Share capital	28	**46,938**	46,938
Reserves		**184,945**	149,598
Total equity		**231,883**	196,536

The consolidated financial statements on pages 43 to 111 were approved and authorised for issue by the board of directors of the Company on 25 March 2013 and are signed on its behalf by:

Wong Kin Ling
Director

Hung Kin
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012

	Attributable to owners of the Company						
	Share capital RMB'000	**Statutory reserve** RMB'000 (Note (a))	**Exchange reserve** RMB'000	**Retained earnings** RMB'000	**Special reserve** RMB'000 (Note (b))	**Other reserve** RMB'000 (Note (c))	**Total** RMB'000
As at 1 January 2011	–	18,451	2,347	93,759	–	–	114,557
Profit for the year	–	–	–	29,184	–	–	29,184
Other comprehensive income for the year:							
Exchange differences arising on translation of foreign operations	–	–	140	–	–	–	140
Total comprehensive income	–	–	140	29,184	–	–	29,324
Issue of new shares upon reorganisation (note 28 (a))	83	–	–	–	(83)	–	–
Issue of new shares on 31 August 2011 (note 28 (b))	–	–	–	–	–	–	–
Initial public offering of shares, net of issuing expenses (note 28 (c))	46,855	–	–	–	–	–	46,855
Appropriations to statutory reserve	–	5,813	–	(5,813)	–	–	–
Recognition of share-based payment (note 29)	–	–	–	–	–	5,800	5,800
As at 31 December 2011 and 1 January 2012	46,938	24,264	2,487	117,130	(83)	5,800	196,536
Profit for the year	–	–	–	35,490	–	–	35,490
Other comprehensive income for the year:							
Exchange differences arising on translation of foreign operations	–	–	(143)	–	–	–	(143)
Total comprehensive income	–	–	(143)	35,490	–	–	35,347
Appropriations to statutory reserve	–	4,903	–	(4,903)	–	–	–
As at 31 December 2012	46,938	29,167	2,344	147,717	(83)	5,800	231,883

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012

Notes:

(a) Statutory reserve

The statutory reserve, which is non-distributable, is appropriated from the profit after taxation of the Group's PRC subsidiaries. In accordance with the relevant laws and regulations of the PRC and the articles of association of the Group's PRC subsidiaries, they are required to appropriate 10% of its net profits determined in accordance with China Accounting Standards for Enterprises issued by the Ministry of Finance of China, after offsetting any prior years' losses, to the statutory surplus reserve. When the balance of such a reserve reached 50% of the respective companies' registered capital, any further appropriation is optional.

(b) Special reserve

Special reserve represents the difference between the aggregate amount of issued and fully paid share capital of the subsidiary acquired by the Company and the nominal amount of the shares issued by the Company in exchange for the entire equity interest in the subsidiary as part of the group reorganisation.

(c) Other reserve

Other reserve represents the difference between the fair value of past services rendered by the employees and the net present values of the consideration payable by the employees in respect of the share transferred. The details of transaction are more fully set out in note 29.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	2012 RMB'000	2011 RMB'000
OPERATING ACTIVITIES		
Profit before tax	**53,671**	49,036
Adjustments for:		
Depreciation of property, plant and equipment	**16,959**	13,453
Amortisation of prepaid lease payments	**297**	297
Reversal of impairment loss of inventories	**–**	(470)
Impairment loss of inventories	**1,010**	426
Share-based payment	**–**	5,800
(Gain) loss on disposal of property, plant and equipment	**(45)**	416
Finance costs	**3,473**	5,944
Interest income	**(501)**	(333)
Cash generated from operation before movements in working capital	**74,864**	74,569
Decrease (increase) in inventories	**13,915**	(10,941)
(Increase) decrease in trade and bills receivables	**(29,809)**	19,724
Decrease in prepayments and other receivables	**3,319**	798
Decrease in trade and bills payables	**(1,232)**	(11,157)
Increase in accruals and other payables	**4,389**	6,386
(Decrease) increase in advance from customers	**(1,042)**	1,265
Cash generated from operations	**64,404**	80,644
PRC income tax paid	**(18,827)**	(18,457)
NET CASH GENERATED FROM OPERATING ACTIVITIES	**45,577**	62,187
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(47,961)**	(27,209)
Deposits paid to acquire non-current assets	**(860)**	(2,190)
Increase in advancement	**–**	(2,000)
Repayment from a related party	**–**	957
Decrease in restricted bank deposits	**4,950**	900
Proceeds from disposal of property, plant and equipment	**103**	435
Interest received	**501**	333
NET CASH USED IN INVESTING ACTIVITIES	**(43,267)**	(28,774)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	2012 **RMB'000**	2011 RMB'000
FINANCING ACTIVITIES		
Repayment of borrowings	**(112,009)**	(134,914)
New borrowings raised	**75,000**	117,755
Interest paid	**(4,775)**	(6,687)
Repayment to related parties	**–**	(728)
Repayment to a shareholder	**–**	(1,559)
Payment of expenses attributable to issue of new shares	**–**	(5,295)
Proceeds from the issue of shares by placing and public offer	**–**	52,150
NET CASH (USED IN) FROM FINANCING ACTIVITIES	**(41,784)**	20,722
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(39,474)**	54,135
CASH AND CASH EQUIVALENTS AS AT 1 JANUARY	**63,744**	9,454
Effect of foreign exchange rate changes	**(136)**	155
CASH AND CASH EQUIVALENTS AS AT 31 DECEMBER, represented by cash and bank balances	**24,134**	63,744

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

1. GENERAL INFORMATION AND BASIS OF PRESENTATION AND CONSOLIDATION

Grand Concord International Holdings Limited (the "**Company**"), which acts as an investment holding company, was incorporated in the British Virgin Islands (the "**BVI**") with limited liability under the Business Companies Act of the BVI (2004) (the "**Companies Act**") on 8 December 2010. The Company was listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 24 November 2011. The address of the registered office and principal place of business of the Company is disclosed in the "Corporate Information" section in the Annual Report.

The principal activities of the Company and its subsidiaries (the "**Group**") are engaged in the manufacturing of knitted fabrics and innerwear. The ultimate holding company of the Company is Global Wisdom Capital Holdings Limited ("**Global Wisdom**"), a limited liability company incorporated in the BVI.

Pursuant to the group reorganisation completed on 22 February 2011 (the "**Reorganisation**"), the Company became the holding company of the companies now comprising the Group. Details of the Reorganisation are set out in the prospectus (the "**Prospectus**") of the Company dated 14 November 2011.

Since all the entities which took part in the Reorganisation were under common control of controlling shareholders of the Company, the Group is regarded as a continuing entity. Accordingly, the consolidated financial statements of the Group for the year ended 31 December 2011 have been prepared on the basis as if the Company had always been the holding company of the Group by applying the principles of merger accounting as set out in the Accounting Guideline 5 "Merger accounting for common control combinations" issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), as if the Reorganisation had occurred from the date when the combining entities first came under the control of the controlling shareholders.

The consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the year ended 31 December 2011 which include the results, changes in equity and cash flows of the companies now comprising the Group have been prepared as if the current group structure have been in existence throughout the year ended 31 December 2011, or since their respective dates of incorporation/establishment or acquisition, where it is the shorter period.

The consolidated statements of financial position of the Group as at 31 December 2011 have been prepared to present the assets and liabilities of the companies now comprising the Group as if the current group structure had been in existence at those dates. All significant intra-group transactions, balances, income and expenses are eliminated on combination.

The consolidated financial statements of the Group are presented in Renminbi ("**RMB**"), which is also the functional currency of the Company.

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

In the current year, the Group has applied the following new and revised HKFRSs issued by the HKICPA.

Amendments to HKFRS 1	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
Amendments to HKFRS 7	Financial Instruments: Disclosures – Transfers of Financial Assets
Amendments to Hong Kong Accounting Standard ("**HKAS**") 12	Deferred Tax: Recovery of Underlying Assets

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

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

Amendments to HKFRSs	Annual Improvements to 2009-2011 Cycle, except for the amendments HKAS 1[1]
Amendments to HKFRS 1	Government Loan[1]
Amendments to HKFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities[1]
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3]
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated financial statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance[1]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities[2]
HKFRS 9	Financial Instruments[3]
HKFRS 10	Consolidated Financial Statements[1]
HKFRS 11	Joint Arrangements[1]
HKFRS 12	Disclosure of Interests in Other Entities[1]
HKFRS 13	Fair Value Measurement[1]
HKAS 19 (as revised in 2011)	Employee Benefits[1]
HKAS 27 (as revised in 2011)	Separate Financial Statements[1]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[1]
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[4]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[2]
HK (International Financial Reporting Interpretations Committee) – Int 20	Stripping Costs in the Production Phase of a Surface Mine[1]

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

Annual Improvements to HKFRSs 2009 – 2011 Cycle issued in June 2012

The Annual Improvements to HKFRSs 2009 – 2011 Cycle include a number of amendments to various HKFRSs. The amendments are effective for annual periods beginning on or after 1 January 2013. Amendments to HKFRSs include the amendments to HKAS 16 Property, Plant and Equipment and the amendments to HKAS 32 Financial Instruments: Presentation.

The amendments to HKAS 16 clarify that spare parts, stand-by equipment and servicing equipment should be classified as property, plant and equipment when they meet the definition of property, plant and equipment in HKAS 16 and as inventory otherwise. The directors of the Company do not anticipate that the application of the amendments will have a material effect on the Group's consolidated financial statements.

The amendments to HKAS 32 clarify that income tax on distributions to holders of an equity instrument and transaction costs of an equity transaction should be accounted for in accordance with HKAS 12 Income Taxes. The directors of the Company anticipate that the amendments to HKAS 32 will have no effect on the Group's consolidated financial statements as the Group has already adopted this treatment.

Amendments to HKAS 32 Offsetting Financial Assets and Financial Liabilities and amendments to HKFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities

The amendments to HKAS 32 clarify existing application issues relating to the offset of financial assets and financial liabilities requirements. Specifically, the amendments clarify the meaning of "currently has a legally enforceable right of set-off" and "simultaneous realisation and settlement".

The amendments to HKFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirement) for financial instruments under an enforceable master netting agreement or similar arrangement.

The amendments to HKFRS 7 are effective for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The disclosures should also be provided retrospectively for all comparative periods. However, the amendments to HKAS 32 are not effective until annual periods beginning on or after 1 January 2014, with retrospective application required.

The directors of the Company anticipate that the application of these amendments to HKAS 32 and HKFRS 7 may result in more disclosures being made with regard to offsetting financial assets and financial liabilities in the future.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

Key requirements of HKFRS 9 are described as follows:

- All recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement are 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 reporting 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.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that 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 of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

The directors of the Company 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

New and revised standards on consolidation, joint arrangements, associates and disclosures

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011).

Key requirements of these five standards are described below.

HKFRS 10 replaces the parts of HKAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements. HK (SIC) – Int 12 Consolidation – Special Purpose Entities will be withdrawn upon the effective date of HKFRS 10. Under HKFRS 10, there is only one basis for consolidation, that is, control. In addition, 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.

HKFRS 11 replaces HKAS 31 Interests in Joint Ventures. HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. HK (SIC) – Int 13 Jointly Controlled Entities – Non-Monetary Contributions by Venturers will be withdrawn upon the effective date of HKFRS 11. Under HKFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under HKAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations. In addition, joint ventures under HKFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under HKAS 31 can be accounted for using the equity method of accounting or proportionate accounting.

HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates, and/or unconsolidated structured entities. In general, the disclosure requirements in HKFRS 12 are more extensive than those in the current standards.

In July 2012, the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 were issued to clarify certain transitional guidance on the application of these five HKFRSs for the first time.

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

New and revised standards on consolidation, joint arrangements, associates and disclosures (continued)

These five standards, together with the amendments relating to the transitional guidance, are effective for annual periods beginning on or after 1 January 2013 with earlier application permitted provided that all of these standards are applied at the same time.

The directors of the Company do not anticipate that the application of these five standards will have a significant impact on amounts reported in the consolidated financial statements.

Amendments to HKFRS 10, HKFRS 12 and HKAS 27 Investment Entities

The amendments to HKFRS 10 introduce an exception to consolidating subsidiaries for an investment entity, except where the subsidiaries provide services that relate to the investment entity's investment activities. Under the amendments to HKFRS 10, an investment entity is required to measure its interests in subsidiaries at fair value through profit or loss.

To qualify as an investment entity, certain criteria have to be met. Specifically, an entity is required to:

- obtain funds from one or more investors for the purpose of providing them with professional investment management services;

- commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and

- measure and evaluate performance of substantially all of its investments on a fair value basis.

Consequential amendments to HKFRS 12 and HKAS 27 have been made to introduce new disclosure requirements for investment entities.

The amendments to HKFRS 10, HKFRS 12 and HKAS 27 are effective for annual periods beginning on or after 1 January 2014, with early application permitted. The directors of the Company anticipate that the application of the amendments will have no effect on the Group as the Company is not an investment entity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

Amendments to HKAS 1 Presentation of items of Other Comprehensive Income

The amendments to HKAS 1 Presentation of Items of Other Comprehensive Income introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to HKAS 1, a "statement of comprehensive income" is renamed as a "statement of profit or loss and other comprehensive income" and an "income statement" is renamed as a "statement of profit or loss". The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require items of other comprehensive income to be grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax.

The amendments to HKAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in future accounting periods.

3. SIGNIFICANT ACCOUNTING POLICIES

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 Stock Exchange and by the Hong Kong Companies Ordinance.

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

The principal accounting policies are set out below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

Merger accounting for business combination involving entities under common control

The consolidated financial statements incorporate the financial statement items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

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 costs 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 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 estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

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 that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies (continued)

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

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss. In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss.

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 lease term.

Research expenditure

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leasehold land for own use

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

Retirement benefit costs

Payments to state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme are recognised as an expense when employees have rendered service entitling them to the contributions.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from "profit before tax" as reported in the consolidated statements 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 substantially enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amount 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 differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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 and interests are only recognised to the extent that it is probably 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.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation (continued)

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes (other than properties under construction as described below), are stated in the consolidated statement of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of assets (other than properties under construction) less their residual values over their 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.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on 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 profits or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are calculated using the weighted average basis. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Cash and cash equivalents

Cash and bank balances in the consolidated statements of financial position comprise cash at banks and on hand and short-term deposits, which have original maturity of three months or less and are not restricted as to use.

For the purpose of the consolidated statements of cash flows, cash and cash equivalents consist of cash and bank balances as defined above.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statements of financial position when a group entity becomes a party to the contractual provisions of the instrument.

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

Financial assets

The Group's financial assets comprise 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

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 debt instrument 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 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 debt instrument, 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.

Loans 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 bills receivables, other receivables, restricted bank deposits and cash and bank balances) are measured at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy in respect of impairment of financial assets below).

Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when 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 the financial assets, objective evidence of impairment could include:

– significant financial difficulty of the issuer or counterparty; or

– breach of contract, such as default or delinquency in interest or principal payments; or

– it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or

– the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as trade 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 average credit period of 30 to 90 days, observable changes in national or local economic conditions that correlate with default on receivables.

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 bills receivables and other receivables where the carrying amount is reduced through the use of an allowance account. When a trade and bills receivable 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 the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses were 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial liabilities and equity instruments

Debt 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.

Other financial liabilities

Other financial liabilities (including trade and bills payables, accruals and other payables and interest-bearing borrowings) are subsequently measured at amortised cost using the effective interest rate method.

Equity instruments

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial liabilities and equity instruments (continued)

Derecognition

The Group derecognised a financial asset only when contractual rights to the cash flows from the assets expire, or when it transfers the financial assets and substantially all the risks and rewards of ownership of the assets 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 loss on tangible assets

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment loss on tangible assets (continued)

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

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

Share-based payment

Shares transferred to employees

The fair value of services received are determined by reference to the fair value of the Company's shares received by the employees of the Company and net with the net present value of the consideration paid by the employees, and is recognised as an expense when the shares transferred immediately, with a corresponding increase in equity (other reserve).

4. CRITICAL ACCOUNTING JUDGMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

4. CRITICAL ACCOUNTING JUDGMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Critical judgment in applying accounting policies

The following are the critical judgement, apart from those involving estimations (see below), that the directors of the Company have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Ownership of buildings

As detailed in note 17, certain of the Group's buildings have not been granted legal title from the relevant government authorities yet. Although, the Group has not obtained the relevant legal title, the directors of the Company having regard to the legal opinion have recognised the buildings on the grounds that they expect the legal title to be obtained in the near future with no major difficulties and the Group in substance are controlling these buildings.

Key sources of estimation uncertainty

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

Useful lives and residual values of property, plant and equipment

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

Impairment of inventories

The Group reviews an aging analysis at the end of each reporting period, and makes impairment for obsolete and slow-moving inventory items. Management estimates the net realisable value for such inventories based primarily on the latest invoice prices. As at 31 December 2012, the carrying amount of inventories was approximately RMB47,460,000 (2011: RMB62,385,000), net of the accumulated impairment loss of inventories approximately RMB2,585,000 (2011: RMB1,575,000).

4. CRITICAL ACCOUNTING JUDGMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Impairment of trade receivables and other receivables

The Group makes impairment based on assessment of the recoverability of trade and other receivables. The Group makes its estimates based on the aging of its trade and other receivables balances, debtors' creditworthiness, and historical write-off experience. If the financial condition of its debtors was deteriorated and resulted in an impairment of their ability to make payments, impairment loss may be required. As at 31 December 2012, the carrying amount of trade and bills receivables was approximately RMB64,939,000 (2011: RMB35,130,000), net of allowance for doubtful debts of approximately RMB39,000 (2011: RMB39,000). As at 31 December 2012, the carrying amount of other receivables was approximately RMB6,624,000 (2011: RMB8,065,000) and no impairment on other receivables was made (2011: nil).

Impairment of property, plant and equipment and prepaid lease payments

The Group assesses annually whether property, plant and equipment and prepaid lease payments have any indication of impairment in accordance with the 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 judgment and estimates. As at 31 December 2012, the carrying amounts of property, plant and equipment and prepaid lease payments were approximately RMB163,219,000 (2011: RMB128,786,000) and RMB13,019,000 (2011: RMB13,316,000) respectively. No impairment loss of property, plant and equipment and prepaid lease payments was made as at 31 December 2012 and 2011.

Income taxes

As at 31 December 2012, a deferred tax asset of approximately RMB570,000 (2011: RMB1,653,000), in relation to unused tax losses and unrealised profit on inventories, has been recognised in the Group's consolidated statements of financial position. No deferred tax asset has been recognised on tax losses arising in the People's Republic of China (the "PRC") and Hong Kong of approximately RMB23,443,000 (2011: RMB13,855,000) as at 31 December 2012, due to unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognised in profit or loss for the period in which such a reversal takes place.

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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 stakeholders 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 net debt, which includes the interest-bearing borrowings as disclosed in note 27, cash and cash equivalents and equity attributable to the owners of the Company, comprising share capital, reserves and retained earnings.

The directors of the Company regularly review and manage the Group's capital structure. As part of this review, the directors of the Company consider the cost of capital and 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 payment of dividends, new shares issue, new borrowings raised or repayment of existing borrowings.

6. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

	2012	2011
	RMB'000	RMB'000
Loans and receivables (including cash and cash equivalents)	**93,660**	110,674
Financial liabilities at amortised cost	**93,269**	126,678

b. Financial risk management objectives and policies

As at 31 December 2012, the Group's major financial instruments include trade and bills receivables, other receivables, restricted bank deposits, cash and bank balances, trade and bills payables, accruals and other payables, and interest-bearing borrowings. Details of the financial instruments are disclosed in respective notes. The risk arising from the Group's financial instruments are mainly credit risk, foreign currency risk, interest rate risk and liquidity risk. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

6. FINANCIAL INSTRUMENTS (CONTINUED)

b. Financial risk management objectives and policies (continued)

Credit risk

As at 31 December 2012, 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 arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statements of financial position. The principal financial assets are trade and other receivables and cash and bank balances.

In order to minimise the credit risk, the directors of the Company 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 debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In addition, the Group aims at broadening the customer base by developing the PRC and the United States markets for innerwear products. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

As at 31 December 2012, the Group's concentration of credit risk by geographical locations is mainly in Japan and the PRC which accounted for 14% (2011: 26%) and 66% (2011: 73%) respectively of the total receivables.

As at 31 December 2012, the Group had certain concentration of credit risk as of approximately 7% (2011: 6%) and 22% (2011: 58%) of the total trade receivables which were due from the Group's largest and five largest customers respectively.

Bank balances are placed in various authorised institutions and the directors of the Company consider the credit risk of such authorised institutions is low.

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For the year ended 31 December 2012

6. FINANCIAL INSTRUMENTS (CONTINUED)

b. Financial risk management objectives and policies (continued)

Foreign currency risk

The Group has foreign currency sales, which expose the Group to foreign currency risk. During the year ended 31 December 2012, approximately 69% (2011: 69%), of the Group's sales are denominated in United States dollars ("USD") which is different from the functional currencies of the group entities making the sales, whilst almost 100% (2011: 99%) respectively of costs are denominated in the functional currencies of the group entities.

Also, certain trade and other receivables, cash and bank balances and other payables are denominated in USD, Japanese yen ("JPY") and Hong Kong dollars ("HKD") which are currencies other than the functional currency of the relevant group entities. The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

	2012	2011
	RMB'000	RMB'000
Assets		
USD	**9,949**	9,247
HKD	**2,036**	36,267
RMB	**107**	102
Liabilities		
USD	**–**	10
HKD	**454**	958
JPY	**–**	40

The Group currently does not have a foreign currency hedging policy. However, the directors of the Company continuously monitor the related foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

6. FINANCIAL INSTRUMENTS (CONTINUED)

b. Financial risk management objectives and policies (continued)

Foreign currency risk (continued)

Sensitivity analysis

The Group entities are mainly exposed to the fluctuation of USD, JPY and HKD.

The following table details the Group's sensitivity to a 5% (2011: 5%) for all periods increase and decrease in the functional currency (RMB) against the relevant foreign currencies. 5% (2011: 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 relevant foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rates.

A positive or negative number below indicates an increase or a decrease in post-tax profit where RMB strengthens 5% (2011: 5%) against the relevant currency. For a 5% (2011: 5%) weakening of RMB against the relevant currency, there would be an equal and opposite impact on the profit.

		HKD impact (Note a)
	Year ended 31 December 2012 RMB'000	Year ended 31 December 2011 RMB'000
Decrease in post-tax profit for the year	**(59)**	(1,324)

		USD impact (Note b)
	Year ended 31 December 2012 RMB'000	Year ended 31 December 2011 RMB'000
Decrease in post-tax profit for the year	**(373)**	(346)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

6. FINANCIAL INSTRUMENTS (CONTINUED)

b. Financial risk management objectives and policies (continued)

Foreign currency risk (continued)

		JPY Impact (Note c)
	Year ended 31 December 2012 RMB'000	Year ended 31 December 2011 RMB'000
Increase in post-tax profit for the year	**–**	2

		RMB Impact (Note d)
	Year ended 31 December 2012 RMB'000	Year ended 31 December 2011 RMB'000
Decrease in post-tax profit for the year	**(4)**	(4)

Notes:

(a) This is mainly attributable to the exposure on HKD denominated cash and bank balances, other receivables and other payables at the end of each reporting period.

(b) This is mainly attributable to the exposure on USD denominated trade receivables, cash and bank balances and other payables at the end of each reporting period.

(c) This is mainly attributable to the exposure on JPY denominated other payables at the end of each reporting period.

(d) This is mainly attributable to the exposure on RMB denominated cash and bank balances at the end of each reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

6. FINANCIAL INSTRUMENTS (CONTINUED)

b. Financial risk management objectives and policies (continued)

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to a fixed rate interest-bearing borrowing and cash flow interest rate risk in relation to variable-rate interest-bearing borrowings (see note 27 for details of these borrowings). The Group's restricted bank deposits and bank balances also have exposure to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on bank balances. The management considers the Group's exposure of the restricted bank deposits and bank balances to cash flow interest rate risk is not significant as the management does not anticipate significant fluctuation in interest rate on bank deposits. The Group has not used any financial instruments to hedge potential fluctuations in interest rates.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of the interest rate offered from the People's Bank of China arising from the Group's interest-bearing borrowings.

Sensitivity analysis

The sensitivity analyses have been determined by the directors of the Company based on the exposure to interest rates for non-derivative instruments including restricted bank deposits, bank balances and interest-bearing borrowings. The analysis is prepared assuming these financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 100 basis point (2011: 100 basis point) increase or decrease is used for all periods when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rate.

The directors of the Company consider that if interest rates had been 100 basis point higher/lower and all other variable were held constant, the Group's post-tax profit would decrease or increase by approximately RMB9,000 for the year ended 31 December 2012 (2011: RMB28,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

6. FINANCIAL INSTRUMENTS (CONTINUED)

b. Financial risk management objectives and policies (continued)

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 facilities.

The following table details the Group's remaining contractual maturities for its non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

Specifically, bank loans with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights within one year after the reporting date. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

The table includes both interest and principal cash flows. To the extent that interest cash flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

As at 31 December 2012	On demand or within one year RMB'000	More than one year and less than two years RMB'000	More than two years and less than five years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
Non-derivative financial liabilities					
Trade and bills payables	42,649	–	–	42,649	42,649
Accruals and other payables	18,975	–	–	18,975	18,975
Interest-bearing borrowings					
– fixed rate	5,133	–	–	5,133	5,000
– variable rate	27,789	–	–	27,789	26,645
	94,546	–	–	94,546	93,269

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

6. FINANCIAL INSTRUMENTS (CONTINUED)

b. Financial risk management objectives and policies (continued)

Liquidity risk (continued)

As at 31 December 2011	On demand or within one year RMB'000	More than one year and less than two years RMB'000	More than two years and less than five years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
Non-derivative financial liabilities					
Trade and bills payables	43,881	–	–	43,881	43,881
Accruals and other payables	14,143	–	–	14,143	14,143
Interest-bearing borrowings – variable rate (note)	67,520	6,322	–	73,842	68,654
	125,544	6,322	–	131,866	126,678

Note:

Bank loans with a repayment on demand clause are included in the "on demand or within one year" time band in the above maturity analysis. As at 31 December 2011, the aggregate undiscounted principal amounts of these bank loans amounted to approximately RMB2,613,000. In the opinion of directors of the Company, the probability of the banks choosing to exercise their discretionary rights to demand immediate repayment is remote as such loans were fully covered by the pledge of certain machinery with the net book value of approximately RMB12,427,000 as at 31 December 2011 and the Group had no history of default or delay in principal nor interests payments. Accordingly, the directors of the Company believe that such bank loans will not be demanded by banks for immediate repayments and will be wholly repaid three years in accordance with the scheduled repayment dates as set out in the loan agreements. As at 31 December 2011, the aggregate principal and interest cash outflows will amount to approximately RMB2,704,000.

6. FINANCIAL INSTRUMENTS (CONTINUED)

c. Fair value

The fair value of the non-derivative financial assets and non-derivative financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using the relevant prevailing market rates.

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

The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments. The directors of the Company consider the fair values of the other non-current liabilities approximate their carrying amounts.

7. REVENUE

Revenue represents the amounts received and receivable for sale of innerwear and fabrics products, net of discounts and sales related taxes. Revenue is analysed as follows:

	2012 **RMB'000**	2011 RMB'000
Innerwear products	**319,151**	291,074
Knitted fabrics	**156,613**	125,473
	475,764	416,547

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

8. SEGMENT INFORMATION

The Group's operating segments, by category of products, based on information reported to the chief operating decision maker for the purpose of resource allocation and performance assessment are as follows:

1) Innerwear products – manufacturing of innerwear and garments

2) Knitted fabrics – manufacturing of fabrics

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment profit represents the profit earned by each segment without allocation of prepaid land lease payments, interest income, directors' emoluments, and unallocated head office and corporate expenses.

Segment assets do not include certain property, plant and equipment for general operating, prepayments for general operating, certain other receivables, deferred tax assets, restricted bank deposits and cash and bank balances. Segment liabilities do not include other payables for general operating, income tax payables and interest-bearing borrowings.

This is the measure reported to the chief operating decision makers for the purposes of resource allocation and performance assessment.

Inter-segment sales are charged at prevailing market price.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

8. SEGMENT INFORMATION (CONTINUED)

An analysis of the Group's revenue, results, assets and liabilities for the years ended 31 December 2012 and 2011 by reportable and operating segment is as follows:

	Year ended 31 December 2012		
	Innerwear products	**Knitted fabrics**	**Total**
	RMB'000	RMB'000	RMB'000
Revenue			
External sales	319,151	156,613	475,764
Inter-segment revenue	95,532	87,818	183,350
Elimination	(95,532)	(87,818)	(183,350)
Group's revenue	319,151	156,613	475,764
Segment profit	37,851	27,606	65,457
Other income			501
Finance costs			(3,473)
Unallocated head office and corporate expenses			(8,814)
Profit before taxation			53,671
Segment assets	166,641	136,555	303,196
Unallocated assets:			
Property, plant and equipments			456
Cash and bank balances			24,134
Restricted bank deposits			3,750
Deferred tax assets			570
Prepayments			509
Other receivables			316
Consolidated total assets			332,931
Segment liabilities	41,692	22,121	63,813
Unallocated liabilities:			
Other payables			954
Income tax payables			4,636
Interest-bearing borrowings			31,645
Consolidated total liabilities			101,048

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

8. SEGMENT INFORMATION (CONTINUED)

	Year ended 31 December 2011		
	Innerwear products RMB'000	Knitted fabrics RMB'000	Total RMB'000
Revenue			
External sales	291,074	125,473	416,547
Inter-segment revenue	58,016	106,579	164,595
Elimination	(58,016)	(106,579)	(164,595)
Group's revenue	291,074	125,473	416,547
Segment profit	54,949	19,558	74,507
Other income			333
Finance costs			(5,944)
Unallocated head office and corporate expenses			(19,860)
Profit before taxation			49,036
Segment assets	150,516	108,502	259,018
Unallocated assets:			
Cash and bank balances			63,744
Restricted bank deposits			8,700
Deferred tax assets			1,653
Prepayments			922
Other receivables			166
Consolidated total assets			334,203
Segment liabilities	38,008	23,582	61,590
Unallocated liabilities:			
Other payables			1,062
Income tax payables			6,361
Interest-bearing borrowings			68,654
Consolidated total liabilities			137,667

8. SEGMENT INFORMATION (CONTINUED)

Other segment information:

	Year ended 31 December 2012			
	Innerwear products	Knitted fabrics	Unallocated	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Amounts included in the measure of segment profit or loss or segment assets:				
Depreciation and amortisation	8,987	8,154	115	17,256
Impairment loss of inventories	1,010	–	–	1,010
Gain on disposal of property, plant and equipment	(45)	–	–	(45)
Additions to property, plant and equipment	29,639	21,240	574	51,453
Additions to deposits paid to acquire non-current assets	–	860	–	860
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss or segment assets:				
Bank interest income	(473)	(24)	(4)	(501)
Finance costs	1,153	2,320	–	3,473
Income tax expense	7,315	10,866	–	18,181

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

8. SEGMENT INFORMATION (CONTINUED)

	Year ended 31 December 2011			
	Innerwear products RMB'000	Knitted fabrics RMB'000	Unallocated RMB'000	Total RMB'000
Amounts included in the measure of segment profit or loss or segment assets:				
Depreciation and amortisation	7,108	6,642	–	13,750
Reversal of impairment loss of inventories	(470)	–	–	(470)
Impairment loss of inventories	–	426	–	426
Loss (gain) on disposal of property, plant and equipment	475	(59)	–	416
Additions to property, plant and equipment	15,538	13,813	–	29,351
Additions to deposits paid to acquire non-current assets	500	1,690	–	2,190
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss or segment assets:				
Bank interest income	(224)	(36)	(73)	(333)
Finance costs	3,329	2,615	–	5,944
Income tax expense	9,102	10,750	–	19,852

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For the year ended 31 December 2012

8. SEGMENT INFORMATION (CONTINUED)

Geographical information:

The Group's revenue from external customers is determined by the destination where the products are delivered and information about its non-current assets by geographical location of the assets are detailed as follows:

	Revenue from external customers		Non-current assets	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Japan	**224,747**	247,274	**–**	–
The PRC (country of domicile)	**165,931**	127,798	**176,992**	144,145
United States	**81,409**	39,248	**–**	–
Others	**3,677**	2,227	**–**	–
	475,764	416,547	**176,992**	144,145

Note: Non-current assets excluded deferred tax assets.

Information about major customers:

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

	2012	2011
	RMB'000	RMB'000
Customer A (note (a))	**131,947**	151,920
Customer B (note (a) and (c))	**74,338**	N/A
Customer C (note (b) and (c))	**64,176**	N/A

Notes:

(a) Revenue from manufacture of innerwear and from overseas customers.

(b) Revenue from manufacture of knitted fabrics and from the PRC customer.

(c) Revenue from customers B and C were less than 10% of the Group's total revenue for the year ended 31 December 2011.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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9. OTHER INCOME AND GAINS

	2012 RMB'000	2011 RMB'000
Interest income	501	333
Sales of scrap materials	74	223
Gain on disposal of property, plant and equipment	45	–
Penalty income from suppliers	432	–
Others	163	69
	1,215	625

10. FINANCE COSTS

	2012 RMB'000	2011 RMB'000
Interest on bank loans wholly repayable within five years	4,775	6,074
Interest on other loans wholly repayable within five years	–	613
	4,775	6,687
Less: amounts capitalised in the cost of qualifying assets	(1,302)	(743)
	3,473	5,944

Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 7.0% (2011: 7.3%) per annum to expenditure on qualifying assets.

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For the year ended 31 December 2012

11. INCOME TAX EXPENSE

	2012 **RMB'000**	2011 RMB'000
Current tax:		
Provision for the year		
– PRC Enterprise Income Tax (the "**EIT**")	**17,102**	19,844
Withholding tax	**–**	358
Deferred tax (note 20)	**1,079**	(350)
	18,181	19,852

(a) Overseas income tax

Pursuant to the rules and regulations of the BVI, the BVI subsidiary and the Company are not subject to any income tax in the BVI.

(b) Hong Kong Profits Tax

The applicable tax rate for the subsidiaries incorporated in Hong Kong is 16.5% for the years ended 31 December 2012 and 2011.

For the years ended 31 December 2012 and 2011, no provision for Hong Kong Profits Tax had been made as there were no estimated assessable profit derived from Hong Kong subsidiaries.

(c) EIT

Under the Law of the PRC on EIT (the "**EIT Law**") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

No provision of EIT has been made for Shandong Grand Concord Garment Co., Limited 山東廣豪服飾有限公司 ("Shangdong Grand Concord"), one of the subsidiaries of the Company, as Shandong Grand Concord did not have any assessable profits subject to EIT for the years ended 31 December 2012 and 2011.

11. INCOME TAX EXPENSE (CONTINUED)

(d) Withholding tax

According to the joint circular of the Ministry of Finance and State Administration of Taxation – Cai Shui 2008 No. 1, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for the year ended 31 December 2012, in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to approximately RMB171,665,000 (2011: RMB126,814,000) as the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such temporary differences will not reverse in the foreseeable future.

The tax charge can be reconciled to the profit before tax per the consolidated statements of comprehensive income as follows:

	2012	2011
	RMB'000	RMB'000
Profit before tax	**53,671**	49,036
Tax at the domestic income rate of 25% (2011: 25%)	**13,418**	12,259
Tax effect of non-taxable income	**(22)**	(23)
Tax effect of non-deductible expenses	**1,742**	6,127
Effect of different tax rates of subsidiaries' operations in other jurisdictions and tax on concessionary tax rate	**706**	183
Withholding tax on distributed profit	**–**	358
Tax effect of tax losses not recognised	**2,337**	948
Tax charge for the year	**18,181**	19,852

Details of deferred tax are set out in note 20.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

12. PROFIT FOR THE YEAR

	2012 RMB'000	2011 RMB'000
Profit for the year has been arrived at after charging (crediting):		
Salaries and other benefits	73,471	55,667
Share-based payment	–	5,800
Contributions to retirement benefit scheme	3,065	2,723
Total staff costs (including directors' emoluments)	76,536	64,190
Auditor's remuneration	885	568
Amortisation of prepaid lease payments	297	297
Cost of inventories recognised as an expense	358,663	289,085
Depreciation of property, plant and equipment	16,959	13,453
Exchange difference, net	1,228	1,810
Loss on disposal of property, plant and equipment	–	416
Impairment loss of inventories (included in cost of sales)	1,010	426
Reversal of impairment loss of inventories (included in cost of sales)	–	(470)
Research expenditure	389	355
Operating lease rentals in respect of rented premises	1,158	950

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

13. DIRECTORS' EMOLUMENTS

The details of directors' emoluments of each of the director of the Company for the years ended 31 December 2012 and 2011 are set out below:

For the year ended 31 December 2012

Name of Director	Fees RMB'000	Salaries and other benefits RMB'000	Contributions to retirement benefit scheme RMB'000	Total RMB'000
Executive directors				
Mr. Wong Kin Ling	–	1,047	10	1,057
Madam Hung Kin	–	1,336	10	1,346
Mr. Wang Shao Hua	–	618	4	622
Mr. Wei Jin Long	–	554	2	556
	–	3,555	26	3,581
Non-executive directors				
Mr. Wang Jin Tang	120	–	–	120
Ms. Tay Sheve Li	196	–	–	196
Dr. Chan Ah Pun	131	–	–	131
	447	–	–	447

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

13. DIRECTORS' EMOLUMENTS (CONTINUED)

For the year ended 31 December 2011

Name of Director	Fees RMB'000	Salaries and other benefits RMB'000	Contributions to retirement benefit scheme RMB'000	Total RMB'000
Executive directors				
Mr. Wong Kin Ling	–	635	7	642
Madam Hung Kin	–	896	7	903
Mr. Wang Shao Hua (Appointed on 15 August 2011)	–	430	1	431
Mr. Wei Jin Long (Appointed on 15 August 2011)	–	250	1	251
	–	2,211	16	2,227
Non-executive directors				
Mr. Wang Jin Tang (Appointed on 15 August 2011)	10	–	–	10
Ms. Tay Sheve Li (Appointed on 15 August 2011)	15	–	–	15
Dr. Chan Ah Pun (Appointed on 15 August 2011)	10	–	–	10
	35	–	–	35

No directors of the Company waived or agreed to waive any emolument paid by the Group during the years ended 31 December 2012 and 2011. No emoluments were paid by the Group to any of the directors of the Company as an inducement to join or upon joining the Group or as compensation for loss of office during the years ended 31 December 2012 and 2011.

At present, the Company does not have any officer with the title of chief executive. The duties of a chief executive are undertaken by Mr. Wong Kin Ling, chairman of the board of the directors of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

14. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, there were four directors of the Company for the years ended 31 December 2012 (2011: four, including Mr. Wang Shao Hua and Mr. Wei Jin Long for the period from 15 August 2011 to 31 December 2011) whose emoluments are set out in note 13 above. The emoluments of the remaining individual for the year ended 31 December 2012 (2011: Mr. Wang Shao Hua and Mr. Wei Jin Long, for the period from 1 January 2011 to 14 August 2011 and the emoluments of the remaining one individual for the year ended 31 December 2011) were as follows:

	2012 **RMB'000**	2011 RMB'000
Salaries and other benefits	**3,627**	2,178
Contributions to retirement benefit scheme	**31**	9
Share-based payment	**–**	5,800
	3,658	7,987

Their emoluments were within the following bands:

	2012 **No. of** **employees**	2011 No. of employees
Nil to HKD1,000,000 (equivalent to nil to RMB820,000)	**1**	1
HKD4,000,001 to HKD4,500,000 (equivalent to RMB3,280,001 to RMB3,690,000)	**–**	1
HKD4,500,001 to HKD5,000,000 (equivalent to RMB3,690,001 to RMB4,100,000)	**–**	1

No emoluments were paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office during the years ended 31 December 2012 and 2011.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

15. DIVIDENDS

The final dividend of HK3.5 cents in respect of the year ended 31 December 2012 (2011: Nil) per share has been proposed by the directors of the Company and is subject to approval by the shareholders in annual general meeting.

16. EARNINGS PER SHARE

The calculation of basic earnings per share for the year ended 31 December 2012 is based on the profit attributable to owners of the Company of approximately RMB35,490,000 (2011: RMB29,184,000) and the weighted average of 380,000,000 ordinary shares (2011: 308,328,767) in issue during the year.

Weighted average number of ordinary shares

	2012	2011
Issued ordinary shares at 1 January	**380,000,000**	300,000,000
Effect of issues of ordinary shares under public offering	**–**	8,328,767
Weighted average number of ordinary shares as at 31 December	**380,000,000**	308,328,767

Diluted earnings per share was the same as the basic earnings per share as there were no potential dilutive ordinary share outstanding during the years ended 31 December 2012 and 2011.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

17. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Leasehold improvements	Machinery	Office equipment	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST:							
As at 1 January 2011	49,273	2,691	74,388	2,344	6,658	12,722	148,076
Additions	366	–	12,785	2,250	1,193	12,757	29,351
Disposals	(1,127)	–	(553)	(14)	(1,772)	–	(3,466)
Transfer from construction in progress	19,321	–	–	–	–	(19,321)	–
Exchange adjustments	–	–	–	–	(19)	–	(19)
As at 31 December 2011 and 1 January 2012	67,833	2,691	86,620	4,580	6,060	6,158	173,942
Additions	2,013	5,769	7,550	1,875	2,112	32,134	51,453
Disposals	–	–	(164)	(23)	(177)	–	(364)
Transfer from construction in progress	29,252	–	–	–	–	(29,252)	–
Exchange adjustments	–	–	–	(1)	(3)	–	(4)
As at 31 December 2012	99,098	8,460	94,006	6,431	7,992	9,040	225,027
ACCUMULATED DEPRECIATION:							
As at 1 January 2011	9,130	1,191	20,123	1,133	2,760	–	34,337
Provided for the year	2,873	504	8,292	648	1,136	–	13,453
Eliminated on disposals	(488)	–	(448)	(14)	(1,665)	–	(2,615)
Exchange adjustments	–	–	–	–	(19)	–	(19)
As at 31 December 2011 and 1 January 2012	11,515	1,695	27,967	1,767	2,212	–	45,156
Provided for the year	3,486	1,811	8,918	1,114	1,630	–	16,959
Eliminated on disposals	–	–	(133)	(20)	(153)	–	(306)
Exchange adjustments	–	–	–	–	(1)	–	(1)
As at 31 December 2012	15,001	3,506	36,752	2,861	3,688	–	61,808
CARRYING VALUES:							
As at 31 December 2012	84,097	4,954	57,254	3,570	4,304	9,040	163,219
As at 31 December 2011	56,318	996	58,653	2,813	3,848	6,158	128,786

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

17. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The above property, plant and equipment except for construction in progress are depreciated on a straight-line basis according to the following estimated useful lives and after taking into account their estimated residual values, as follows:

Buildings held for own uses	20 years
Leasehold improvements	5 years
Machinery	3 – 10 years
Office equipment	3 – 5 years
Motor vehicles	3 – 5 years

As at 31 December 2012, the Group has not obtained the building ownership certificates for buildings with carrying values of approximately RMB44,153,000 (2011: RMB13,899,000). The Group is in the process of obtaining the building ownership certificates.

Subsequently on 6 February 2013, the Group has obtained a building ownership certificate for a building with carrying value of approximately RMB17,732,000 as at 31 December 2012.

As at 31 December 2012, certain Group's buildings and machinery with an aggregate carrying amounts of approximately RMB33,342,000 (2011: RMB48,098,000) were pledged to secure the bank loans granted to the Group (note 32).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

18. PREPAID LEASE PAYMENTS

	2012	2011
	RMB'000	RMB'000
COST		
At beginning and at end of the year	**14,864**	14,864
ACCUMULATED AMORTISATION		
At beginning of the year	**1,548**	1,251
Provided for the year	**297**	297
At end of the year	**1,845**	1,548
CARRYING VALUES		
At end of the year	**13,019**	13,316
Analysed for reporting purposes as:		
Non-current asset	**12,722**	13,019
Current asset	**297**	297
	13,019	13,316

The Group's prepaid lease payments comprise leasehold land in the PRC held under medium-term lease.

As at 31 December 2012, certain Group's prepaid lease payments with an aggregate carrying amount of approximately RMB11,422,000 (2011: RMB13,316,000) were pledged to secure the bank loans granted to the Group (note 32).

19. DEPOSITS PAID TO ACQUIRE NON-CURRENT ASSETS

	2012	2011
	RMB'000	RMB'000
Deposits paid to acquire:		
Property, plant and equipment	**860**	2,190

20. DEFERRED TAX ASSETS

The movement in deferred tax assets is as follows:

	Unrealised profit on inventories RMB'000	**Tax losses** RMB'000	**Total** RMB'000
At 1 January 2011	846	472	1,318
Credited to profit or loss for the year	350	–	350
Exchange difference	–	(15)	(15)
As at 31 December 2011 and at 1 January 2012	1,196	457	1,653
Charged to profit or loss for the year	(1,079)	–	(1,079)
Exchange difference	–	(4)	(4)
As at 31 December 2012	117	453	570

As at 31 December 2012, the Group has unused PRC and Hong Kong tax losses of approximately RMB26,213,000 (2011: RMB16,625,000) available for offsetting against future profits. A deferred tax asset has been recognised in respect of Hong Kong tax losses approximately RMB2,770,000 of such losses as at 31 December 2012 and 2011. No deferred tax asset has been recognised in respect of the remaining Hong Kong tax losses of approximately RMB2,129,000 (2011: RMB1,420,000) and PRC tax losses of approximately RMB21,314,000 (2011: RMB12,435,000) due to unpredictability of future profit streams. All the unrecognised PRC tax losses as at 31 December 2012 will expire in 2013 to 2018.

21. INVENTORIES

	2012 **RMB'000**	2011 RMB'000
Raw materials	**24,015**	18,490
Work-in-progress	**20,230**	28,506
Finished goods	**3,215**	15,389
	47,460	62,385

During the year, no write-back of provision for slow-moving inventories (2011: RMB470,000) has been recognised and included in the cost of sales upon the sales of the relevant inventories.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

22. TRADE AND BILLS RECEIVABLES

	2012 RMB'000	2011 RMB'000
Trade and bills receivables	**64,978**	35,169
Less: allowance for doubtful debts	**(39)**	(39)
	64,939	35,130

The Group generally allows an average credit period of 30 to 90 days to its trade customers. The Group does not hold any collateral over the trade receivables. The aging analysis of the Group's trade receivables net of allowance for doubtful debts is presented based on the invoice date at the end of each reporting period and as follows:

	2012 RMB'000	2011 RMB'000
0 – 30 days	**43,041**	23,885
31 – 60 days	**12,066**	9,467
61 – 90 days	**8,567**	989
Over 90 days	**1,265**	789
	64,939	35,130

Included in the Group's trade receivables balances are debtors with aggregate carrying amount of approximately RMB1,693,000 (2011: RMB1,778,000) which were past due as at the reporting date for which the Group has not provided for allowance for doubtful debts because there has not been a significant change in credit quality and these balances are still considered recoverable.

22. TRADE AND BILLS RECEIVABLES (CONTINUED)

The aging of trade receivables based on payment due date is as follows:

			Past due but not impaired		
	Total	**Neither past due nor impaired**	**Less than 30 days**	**31 – 120 days**	**Over 120 days**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
31 December 2012	64,939	63,246	428	1,265	–
31 December 2011	35,130	33,352	989	772	17

As at 31 December 2012, no Group's trade receivables (2011: RMB21,499,000) were pledged to secure the bank loans granted to the Group. Details are disclosed in note 32.

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

	2012	2011
	RMB'000	RMB'000
USD	**7,461**	8,909
HKD	**37**	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

23. PREPAYMENTS AND OTHER RECEIVABLES

	2012	2011
	RMB'000	RMB'000
Prepayments	**422**	1,026
Advance to suppliers	**7,934**	9,208
Other receivables	**6,624**	8,065
	14,980	18,299
Less: amount shown under non-current portion	**191**	150
	14,789	18,149

The amount shown under non-current portion was rental prepayment for a processing centre under an operating lease for over one to seven years.

As at 31 December 2011, included in the other receivables was amount advanced to an independent third party amounting to RMB2,000,000 with no interest bearing and repayment on demand. The Group does not hold any collateral over the balance.

The Group has individually assessed all other receivables and no impairment loss was recognised during the years ended 31 December 2012 and 2011. All other receivables were neither past due nor impaired.

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

	2012	2011
	RMB'000	RMB'000
HKD	**366**	1,144

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

24. RESTRICTED BANK DEPOSITS/CASH AND BANK BALANCES

Restricted bank deposits represent deposits pledged to banks to secure banking facilities granted to the Group. Deposits amounting to approximately RMB3,750,000 (2011: RMB8,700,000) have been pledged to secure the short-term bills payables and are therefore classified as current assets as at 31 December 2012. During the year ended 31 December 2012, the balances carried interest at average market rates from 2.85% to 3.1% (2011: 0.5% to 3.3%) per annum and will be released upon the completion of bills payable transactions and settlement of bank loans. The carrying amounts of the Group's restricted bank deposits are denominated in RMB.

Bank balances carried interest at average market rates from 0.01% to 0.5% (2011: 0.01% to 0.5%) per annum during the year ended 31 December 2012.

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

	2012	2011
	RMB'000	RMB'000
USD	**2,488**	338
HKD	**1,633**	35,123
RMB	**107**	102
EURO	**62**	–
POUND	**6**	–
	4,296	35,563

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

25. TRADE AND BILLS PAYABLES

The average credit period on purchase of raw materials granted by the Group's suppliers was from 30 to 120 days. The Group has financial risk management policy to ensure that all payables are settled within the credit timeframe. The aging analysis of trade payables is presented based on the invoice date at the end of the reporting period and as follows:

	2012	2011
	RMB'000	RMB'000
0 – 30 days	**33,128**	27,875
31 – 90 days	**7,039**	8,818
91 – 180 days	**1,731**	4,601
Over 180 days	**751**	2,587
	42,649	43,881

26. ACCRUALS AND OTHER PAYABLES

	2012	2011
	RMB'000	RMB'000
Payroll and welfare payables	**11,047**	10,882
Other tax payables	**2,512**	2,955
Other payables	**7,928**	3,261
	21,487	17,098

The Group's accruals and other payables that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	2012	2011
	RMB'000	RMB'000
HKD	**454**	958
JPY	**–**	40
USD	**–**	10
	454	1,008

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

27. INTEREST-BEARING BORROWINGS

	2012 RMB'000	2011 RMB'000
Bank loans-secured	**31,645**	68,654
Carrying amount repayable:		
On demand or within one year	**31,645**	60,041
More than one year, but not exceeding two years	**–**	6,000
	31,645	66,041
Carrying amount of bank loans that are not repayable within one year from the end of the reporting period but contain a repayment on demand clause (shown under current liabilities under HK Int 5 Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause)	**–**	2,613
	31,645	68,654
Less: amounts shown under current liabilities	**(31,645)**	(62,654)
	–	6,000

As at 31 December 2012, secured bank loans with carrying amount of approximately RMB31,645,000 (2011: RMB41,654,000) were secured by prepaid lease payments, buildings and machinery of the Group. As at 31 December 2012, no bank loan was secured by trade receivables (2011: RMB27,000,000). Details are disclosed in note 32.

The effective interest rate per annum at the end of the reporting periods ranged from:

	2012		2011	
	Effective interest rate	**RMB'000**	Effective interest rate	RMB'000
Fixed rate borrowings	**5.60%**	**5,000**	–	–
Variable rate borrowings	**6.00% – 8.96%**	**26,645**	6.56% – 9.31%	68,654
		31,645		68,654

As at 31 December 2012 and 2011, the carrying amounts of the Group's borrowings are denominated in RMB.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

27. INTEREST-BEARING BORROWINGS (CONTINUED)

As at the end of the reporting period, the Group has the following undrawn borrowing facilities:

	2012 RMB'000	2011 RMB'000
Expiring within one year	**10,000**	88,500

28. SHARE CAPITAL

Authorised ordinary shares:

On 8 December 2010, the Company was incorporated and was initially authorised to issue a maximum of 39,000,000 ordinary shares of HKD0.01 each. On 10 March 2011, the Company re-designated all the authorised shares of HKD0.01 as shares with no par value in compliance with the Companies Act.

On 15 August 2011, the Company increased its maximum number of authorised ordinary shares from 39,000,000 shares to 1,000,000,000 shares. The new shares rank pari passu with the existing shares in all respects.

	Notes	Number of shares	Share Capital HKD	Share Capital RMB'000
Issued and fully paid:				
Ordinary shares as at 8 December 2010 (date of incorporation), 31 December 2010 and 1 January 2011 at HKD0.01 per share		1	–	–
Issued of new shares upon Reorganisation at HKD0.01 per share	(a)	9,999,999	100,000	83
Issued of new shares on 31 August 2011 at issue price of HKD0.0000001 per share	(b)	290,000,000	29	–
Issued of new shares under public offering	(c)	80,000,000	64,000,000	52,150
Less: share issuance cost	(c)	–	(6,508,854)	(5,295)
Ordinary shares as at 31 December 2011 and 2012		380,000,000	57,591,175	46,938

28. SHARE CAPITAL (CONTINUED)

Notes:

(a) On 22 February 2011, the Company allotted and issued an aggregate of 9,999,999 new ordinary shares of HKD0.01 each to Global Wisdom in exchange for the entire equity interest in Grand Concord Trading Limited ("Grand Concord Trading") from Mr. Wong Kin Ling and Madam Hung Kin, the directors of the Company for the Reorganisation. The details of the Reorganisation are set out in the Prospectus of the Company dated 14 November 2011.

(b) On 31 August 2011, the Company allotted and issued an aggregate of 290,000,000 new ordinary shares to their existing shareholders at an issue price of HKD0.0000001 and in aggregate of HKD29.

(c) On 24 November 2011, 80,000,000 ordinary shares of the Company were issued at HKD0.8 by way of placing and public offer and amount of approximately HKD6,509,000 (equivalent to approximately RMB5,295,000) share issuance cost was incurred with the new shares issue. On the same date, the Company's shares were listed on the Main Board of the Stock Exchange.

29. SHARE-BASED PAYMENT

On 7 March 2011, in recognition of the services of two senior executives of the Group's subsidiaries (whom were appointed as directors of the Company as at 15 August 2011) (the "Executives"), Global Wisdom, being the Company's holding company, transferred a total of 1,300,000 shares of the Company (the "Shares") to the Executives, at an aggregate consideration of approximately RMB30,719,000 (the "Shares Consideration"). The Shares Consideration was determined by reference to a valuation by an independent valuer, and represented the then fair values of the Shares. The Shares Consideration was paid by the Executives in cash by three installments which was fully settled on 7 March 2011, 7 March 2012 and 7 March 2013. The net present value of the Shares Consideration to be settled by the Executives was determined to be approximately RMB24,919,000 as at 7 March 2011.

Accordingly, the Group recorded an expense for the share-based payment of RMB5,800,000 in respect of the aforesaid arrangement which accounted for as an equity-settled share-based payment transaction in the year ended 31 December 2011, which represented the difference of the fair value of Shares transferred to the Executives and the net present value of Shares Consideration to be settled by the Executives as at 7 March 2011. Such amount of RMB5,800,000 was recorded as "other reserve" of the Group.

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29. SHARE-BASED PAYMENT (CONTINUED)

On 19 August 2011, the Company has adopted a share option scheme (the "Scheme") for the primary purpose of providing incentives to directors of the Company, eligible employees and other selected participants and will expire on 18 August 2021. Under the Scheme, the directors of the Company may, at their discretion, invite i) employees of the Company and its subsidiaries; ii) non-executive directors of the Company and its subsidiaries; iii) suppliers of goods or services to the Company and its subsidiaries; iv) customers of the Company and its subsidiaries; v) any person or entity that provides research, development or other technological support to the Company and its subsidiaries; vi) any shareholder of the Company and its subsidiaries; vii) adviser or consultant to any area of business or business development of the Company and its subsidiaries; and viii) other group or classes of participants who have contributed or may contribute by way of joint ventures, business alliance or other business arrangement to the growth of the Company and its subsidiaries to take up options to subscribe for shares. The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the issued shares on the day on which the trading of the shares of the Company commence on the Stock Exchange such limit may be refreshed subject to the shareholders' approval.

No share option was granted under the Scheme for the years ended 31 December 2012 and 2011.

30. OPERATING LEASES ARRANGEMENTS

The Group as leasee

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

	2012 **RMB'000**	2011 RMB'000
Within one year	**725**	1,147
In the second to fifth years, inclusive	**–**	609
Over five years	**–**	420
	725	2,176

Operating lease payments represent rentals payable by the Group for certain of its office properties and factories. Leases contracts are negotiated and rentals are fixed for three to ten years.

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For the year ended 31 December 2012

31. CAPITAL COMMITMENTS

	2012 RMB'000	2011 RMB'000
Amount contracted for but not provided in the consolidated financial statements in respect of acquisition of property, plant and equipment	**7,900**	10,000

32. PLEDGE OF ASSETS

Assets with the following carrying amounts have been pledged to secure bills payables (note 25) to suppliers and bank loans (note 27) of the Group at the end of the reporting period:

	2012 RMB'000	2011 RMB'000
Prepaid lease payments	**11,422**	13,316
Buildings	**22,499**	35,671
Machinery	**10,843**	12,427
Restricted bank deposits	**3,750**	8,700
Trade receivables	**–**	21,499
	48,514	91,613

33. RETIREMENT BENEFIT SCHEMES

The employees employed in the PRC are members of the state-managed retirement benefit schemes operated by the PRC government. The PRC subsidiary is required to contribute a certain percentage of their payroll to the retirement benefit schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefit schemes is to make the required contributions under the schemes.

During the years ended 31 December 2012 and 2011, the Group operated a Mandatory Provident Fund Scheme ("MPF Scheme") for all qualifying employees in Hong Kong under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme were held separately from those of the Group in funds under the control of an independent trustee. Under the rule of the MPF Scheme, the employer and its employees were each required to make contributions to the scheme at rate specified in the rules. The only obligation of the Group with respect of MPF Scheme was to make the required contributions under the scheme. No forfeited contribution was available to reduce the contribution payable in the future years.

For the year ended 31 December 2012, the total amounts contributed by the Group to retirement benefit scheme and charged to profit or loss were approximately RMB3,065,000 (2011: RMB2,723,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

34. MATERIAL RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in the consolidated financial statements, the Group had the following material transactions with related parties during the years ended 31 December 2012 and 2011:

Name of party	Relationship
Shanghai Guang Yu Textiles Co. Ltd (上海廣裕紡織品有限公司) (“Guang Yu”) (note (a) and (b))	Under significant influence of Mr. Wei Jin Long who is a senior executive of the Group and he became the director of the Company on 15 August 2011
Bolden Garment Limited (“Bolden Garment”) (note (c))	Ultimately controlled by Mr. Wong Kin Ling and Madam Hung Kin
Madam Hung Kin	Controlling shareholder and director of the Company
Mr. Wang Shao Hua and Mr. Wei Jin Long	Senior executives of the Group and became the directors of the Company on 15 August 2011

Notes:

(a) The English translation of the company names are for reference only. The official names of these entities are in Chinese.

(b) Guang Yu was no longer a related party of the Group after change in its shareholder to an independent third party on 4 March 2011.

(c) Bolden Garment was registered as a dormant company since 3 January 2011.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

34. MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(i) Balances:

	Year ended 31 December 2012 RMB'000	Year ended 31 December 2011 RMB'000	**Maximum amount outstanding during the year 2012 RMB'000**	Maximum amount outstanding during the year 2011 RMB'000
Amount due from a related party (note (a))				
Bolden Garment	**–**	–	**–**	957
Amount due from a director (note (b))				
Madam Hung Kin	**–**	–	**11,000**	–

Notes:

(a) The amounts arose from temporary fund transfer of non-trade nature. The amount due from a related party was unsecured, non-interest bearing and repayable on demand. The amount was fully settled before the listing of the Company's share on the Stock Exchange.

(b) The amount due from a director was unsecured, non-interest bearing and repayable on demand. The amount was fully settled before 31 December 2012.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

34. MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(ii) Transactions with related parties:

Name of party	Nature of transaction	2012 RMB'000	2011 RMB'000
(a) Guang Yu	Sales of goods by the Group	–	277
	Purchase of goods by the Group	–	279
(b) Mr. Wang Shao Hua and Mr. Wei Jin Long	Share-based payment (note 29)	–	5,800

The directors of the Company are of the opinion that the transactions (a) with a related party were conducted on normal commercial terms in the ordinary course of business.

The directors of the Company confirmed the transaction (b) concluded under mutually agreed terms.

(iii) Key management compensation

The remuneration of the directors of the Company and other members of key management of the Group during the year was as follows:

	2012 RMB'000	2011 RMB'000
Short-term benefits	**3,627**	4,884
Post-employment benefits	**31**	34
Share-based payment	**–**	5,800
	3,658	10,718

The remuneration of directors of the Company and key executives is determined by the board of directors of the Company having regard to the performance of individuals and market trends.

35. MAJOR NON-CASH TRANSACTIONS

The consideration for additions to property, plant and equipment of approximately RMB51,453,000 (2011: RMB29,351,000) for the year ended 31 December 2012 as set out in note 17 was partially settled by deposit of approximately RMB2,190,000 (2011: RMB1,399,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

36 PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries as at 31 December 2012 and 2011 are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company	Principal activities
			Indirect	
Grand Concord Trading 廣豪貿易有限公司	Hong Kong	HKD2	100%	Investment holding
Grand Concord Garment (Hong Kong) Limited 廣豪服飾(香港)有限公司	Hong Kong	HKD1	100%	Trading of garments
Zhucheng Eternal Knitting Co., Limited 諸城裕泰針織有限公司 (note (a) and (b))	The PRC	USD2,300,000 (2011: USD1,300,000)	100%	Manufacture of innerwear
Zhucheng Yumin Knitting Co., Limited 諸城裕民針織有限公司 (note (a) and (b))	The PRC	USD3,600,000 (2011: USD2,600,000)	100%	Manufacture of fabrics, provision of fabric weaving knitting, printing and dyeing services
Shandong Grand Concord 山東廣豪服飾有限公司 (note (a) and (b))	The PRC	USD1,500,000 (2011: USD850,000)	100%	Manufacture of innerwear and garments

Notes:

(a) The entity is wholly foreign owned enterprise established in the PRC.

(b) The English translation of the company names is for reference only. The official names of these companies are in Chinese.

The above table lists the subsidiaries of the Company which, in the opinion of the directors of the Company, principally affected the results for the year or formed a substantive portion of the net assets of the Group.

FINANCIAL SUMMARY

RESULTS

	Year ended 31 December				
	2012	2011	2010	2009	2008
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**475,764**	416,547	378,289	194,912	136,188
Profit for the year	**35,490**	29,184	53,471	31,612	7,448
Total comprehensive income for the year	**35,347**	29,324	53,666	31,446	8,046

ASSETS AND LIABILITIES

	As at 31 December				
	2012	2011	2010	2009	2008
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	**332,931**	334,203	273,431	190,289	143,464
Total liabilities	**(101,048)**	(137,667)	(158,874)	(129,398)	(114,019)
Total equity	**231,883**	196,536	114,557	60,891	29,445

Note:

The Company was incorporated in the British Virgin Islands on 8 December 2010 and became the holding company of the Group on 22 February 2011. The results and assets and liabilities of the Group for 2008, 2009 and 2010 have been prepared on a combined basis as if the current group structure had been in existence throughout and at the end of those years and have been extracted from the Prospectus.