ASIA FASHION
亚洲时尚

Annual Report 2011

A GOOD YEAR of Growth







CONTENTS

CORPORATE PROFILE

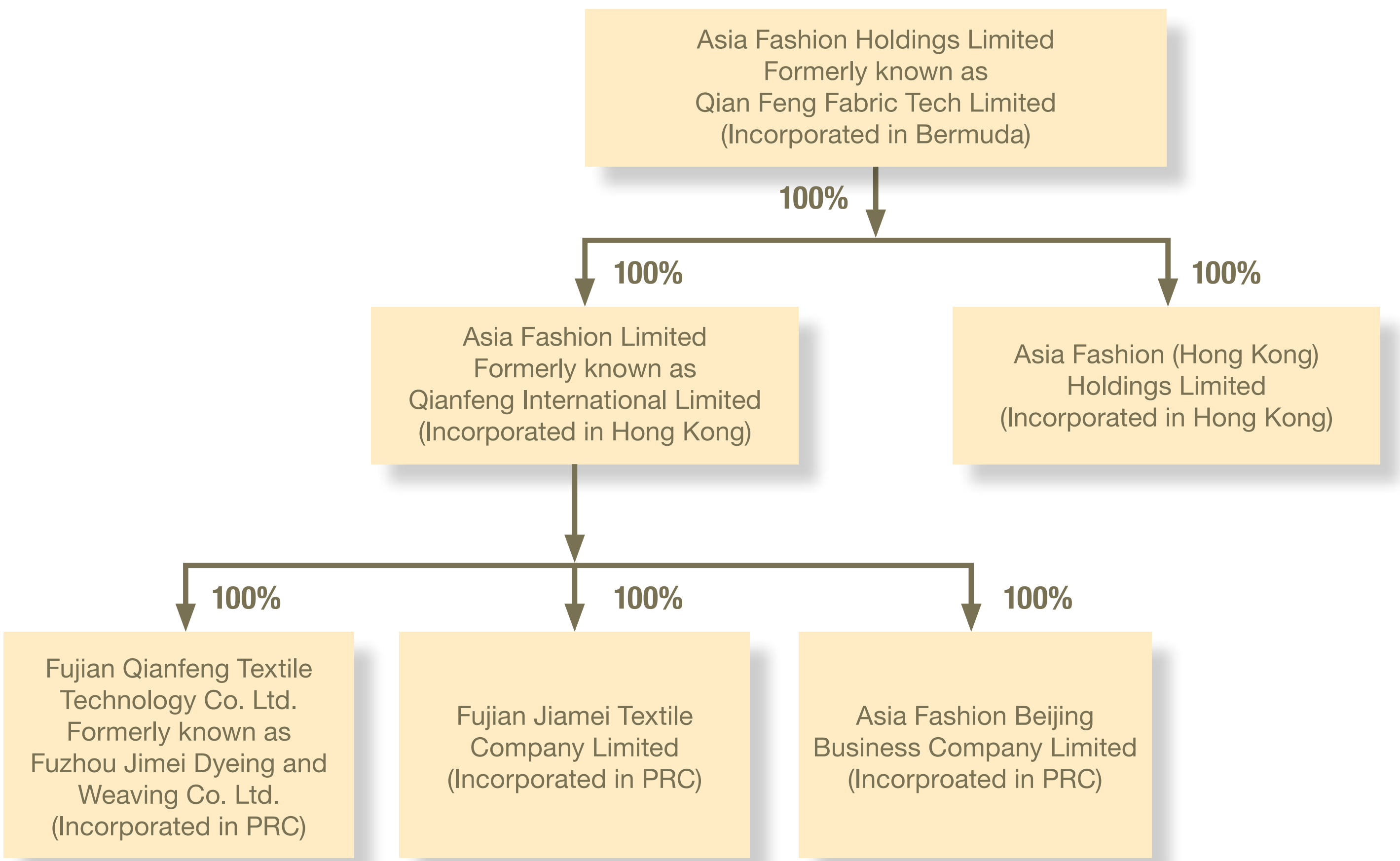
Asia Fashion Holdings Limited (the "company") and its subsidiaries (collectively the "Group") is an integrated manufacturer of high quality functional knitted fabrics applicable in a wide variety of products including casual wear, sportswear, shoes and bags. With our products used by reputable international and The People's Republic of China (the "PRC") brand names, we are well-positioned to ride on the global rise in affluence and growth of the PRC textile industry.

Strategically located in Fujian Province - one of the PRC's largest fabric producing provinces - we are principally engaged in the production, dyeing and post-processing treatment of synthetic knitted fabrics. We process fabric products by imparting special functionalities such as water-resistance, fire-resistance, moisture wicking, UV-protection, anti-mildew and anti-bacterial.

Our customers are mainly sportswear and sport shoes producers, garment producers as well as fabric trading companies, the majority of whom are located in the PRC. Some of our products are used by our customers for the production of garments and shoes for well-known international brands such as Adidas, Kappa, Mizuno, Nike and Triumph, as well as PRC brands such as Anta (安踏), Erke (鴻星尔克), 361°, Li-Ning (李宁) and Septwolves (七匹狼). Our customers' products are sold in the PRC, Hong Kong, Taiwan, the US, Europe, Japan and India.

In October 2010, Goodyear, a world-renowned company with over a century of history and heritage has decided to entrust their China retail strategy to the Company, which undoubtedly marked a huge encouragement and recognition of our capabilities. The Group's expansion into the retail business is a long-term strategy to sustain our growth and creating return and value to our shareholders.

GROUP STRUCTURE



BRANDS & PRODUCTS

We are steadying ourselves to meet the consistent demand for our specially engineered sports fabric. To compete effectively, we are staying focused on our product quality, and will mark our position in this ever-changing marketplace.

Lin Daoqin
Chairman and Chief Executive Officer

CHAIRMAN'S MESSAGE

Dear Shareholders,

2011 was a year of economic uncertainties. The global economic recovery was punctuated with Eurozone debt crisis, slow recovery of the United States economy, political unrest in the Middle East and North Africa and elevated oil prices. Asian economies, particularly the emerging ones, registered growth, despite the disruption early in the year caused by the Japan earthquake and Tsunami. China's economy expanded by 9.2% in 2011 from a year earlier and 8.9% year-on-year in the fourth quarter, the slowest quarterly growth in 10 quarters. With our limited exposure to Western markets, Asia Fashion Holdings Limited ("Asia Fashion" or "Group") turned in another year of sterling performance.

The Year in Review

We achieved double digit revenue growth for the financial year ended 31 December 2011 ("FY2011"). Group revenue rose an impressive 48.7% to RMB408.1 million in FY2011, from RMB274.5 million in the financial year ended 31 December 2010 ("FY2010"). Net profit after tax rose correspondingly to RMB57.0 million in FY2011, up 51.3% from the RMB37.7 million we posted in the last financial year. Our gross profit grew faster than our turnover is a testament to the Group's strategy of focusing on functional fabrics, which command higher gross margin and selling price. Functional fabrics accounted for approximately 80% of our sales. I am pleased to report that the gross profit margin improved by 2.8%-point from 27.9% in FY2010 to 30.7% in FY2011 despite higher material costs.

In terms of business segments, our Garment and Apparel Fabrics business grew a sterling 40.2%, bringing in revenue of RMB197.3 million. The Shoe Fabrics business, in line with trends from previous years, grew significantly by 49.9%, contributing RMB117.9 million to Group revenue. The growth in this segment was due to increase in domestic demand of shoe fabrics during the first nine months of the year. Our Luggage and Bag Fabrics business grew marginally by 9.8%, bringing in revenue of RMB19.7 million, while our Other Fabrics business outpaced the other segments with an impressive 79.9% increase in sales volume as a result of higher demand from our new customers using our fabrics in the manufacturing of products in car upholstery, toys and equipment for physical training.

Our cash and cash equivalents remained robust at RMB346.7 million, while our gearing remains low at 4.45%. Earnings per share ("EPS") for FY2011, on a fully diluted basis, stood at RMB10.44 cents as compared to EPS of RMB7.64 cents for FY2010. Net assets backing per ordinary share rose from RMB89.7 cents as at 31 December 2010 to RMB94.6 cents as at 31 December 2011.

Prospects and Strategic Initiatives

In their 12th Five-Year Plan (中国五年计划) passed on March 14th, 2011, the PRC government signaled their intention to reduce income inequality and shift China's economic growth model from an export-driven economy to one driven more by domestic consumption. We believe this will be a strong driving force behind the growth of China's textile industry. The Five-Year Plan also mentioned increasing urbanisation by gradually transferring farmers qualified for urban household permits into cities. With a population of 1.3 billion (as at end 2010), this translates to an additional 52 million people who will be exposed to more higher-end branded textiles and apparels by the end of 2015. Looking ahead, the 12th Five-Year Plan emphasises the promotion of technical textiles as the key growth focal point for the whole textile industry, which augurs well for us as the Group has been focusing our R&D efforts in the development of functional fabrics, which generally command higher margins and selling prices.

We achieved double digit revenue growth for the financial year ended 31 December 2011 ("FY2011"). Group revenue rose an impressive 48.7% to RMB408.1 million in FY2011, from RMB274.5 million in the financial year ended 31 December 2010 ("FY2010").

The Group's expansion into the retail business is a long-term strategy to sustain our growth and creating return and value to our shareholders. Our strategic partnership with Goodyear as their exclusive retailer in China is a testament of our track record. In line with this strategic initiative, we have changed our name to Asia Fashion Holdings Limited in May to better reflect our business interests. I am pleased to announce that our first two retail outlets in Beijing and Xinyang City of Henan have started operations in early January 2012, retailing outdoor performance apparel, outdoor and casual footwear, bags and accessories, outdoor equipment, gifts and souvenirs bearing Goodyear trademarks.

The Group has enjoyed success through the years through reinventing and transforming our businesses while simultaneously adhering to fundamental business principles of maintaining a stable and firm foundation. Our strategy has been to pursue change, not for change sake, but to remain relevant in the dynamics of changing business needs. This is reflected in our concerted efforts to expand our downstream business and to focus our R&D and marketing efforts to develop and sell more new functional fabrics.

While the textile industry has often been cited as a "low-technology" industry, we have showed resilience during the 2008 financial crisis and China's fibre and textile industry remains an important pillar of China's economy. According to the China Textile Economic Information (CTEI) website, China's textile industry output jumped 27.5% year-on-year to RMB5.0 trillion between January and November 2011. We recognize that the textile and apparel industry is evolving, thus the Group has plans to invest in new technology and brand management over the next five years to keep up with changing customer demands and to take advantage of new business opportunities.

The Year Ahead

While the Group believes China's economy is set to remain on a strong growth trajectory in 2012 and domestic consumption will continue to increase, we are mindful of existing inflationary pressure which is driving up business costs. We will need to be vigilant and to improve our competitiveness through increasing operational efficiencies and practising prudent cost controls. Productivity and efficiency are integral to higher levels of performance. We underlined our commitment towards enhancing productivity within our Group by providing continuous training for our staff in order to further deepen our capabilities to better serve our customers.

We are optimistic of our Group prospects in the coming year, given our capabilities and resources to bounce back after the 2009 global recession. We will continue to expand and open more retail shops according to our business development plan.

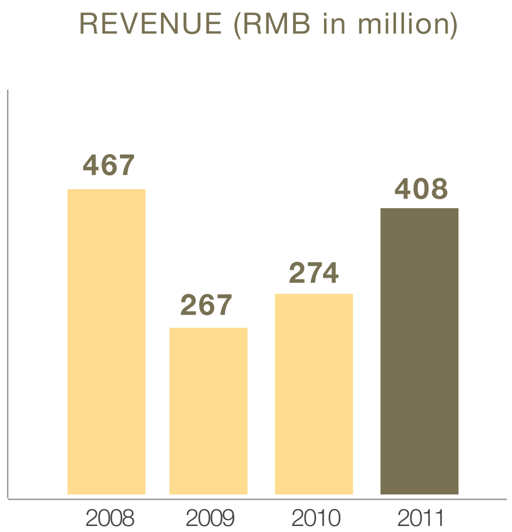
Acknowledgement

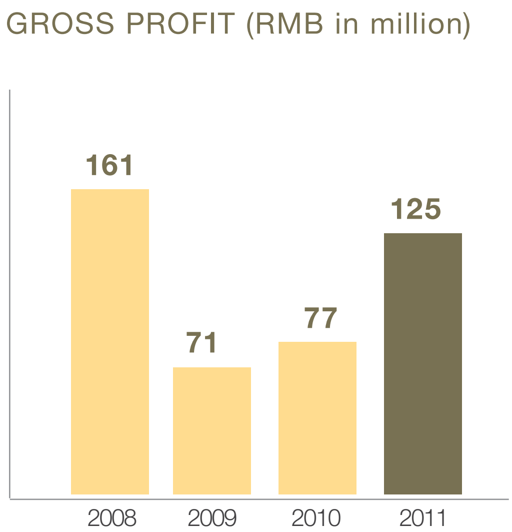
In view of our need to conserve cash for strategic investments and downstream expansion, the Board has decided not to declare dividends for FY2011. I would like to take this opportunity, together with my Board of Directors, to express our gratitude to all our shareholders, customers and business associates for their continued support and trust in our company. My appreciation also goes out to my colleagues at Asia Fashion for another year of hard work and dedication. Last but not least, my sincerest thanks to my fellow members on the Board for their invaluable guidance and counsel during the past year.

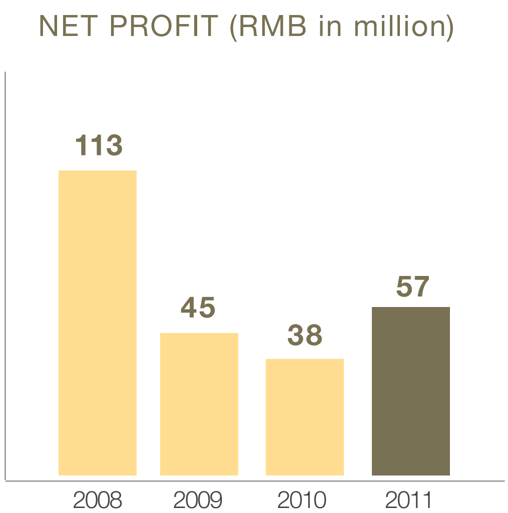
I look forward to leading the company to another successful year ahead for the Group.

Lin Daoqin
Chairman and Chief Executive Officer

FINANCIAL HIGHLIGHTS







FYE Dec 31	2011 RMB'000	2010 RMB'000
Revenue	408,133	274,534
Gross Profit	125,361	76,812
Operating Profit	83,515	51,478
Profit attributable to Shareholders	57,033	37,702

REVIEW OF FINANCIAL PERFORMANCE

Revenue

Our revenue for the twelve months increased by RMB133.6 milliion or 48.7% from RMB274.5 million in 12 months ended 31 December 2010 ("FY2010") to RMB408.1 million in 12 months ended 31 December 2011 ("FY2011"). The increase attributable to both the increase in sales volume and average selling price in the manufacturing of sports and lesiure apparels, shoes segments and other fabrics due mainly to a general recovery of the demand of our fabrics from customers. The increase in sales volume and overall average selling price of our fabrics in FY2011 were 41.5% and 5.1% respectively.

The increase in revenue from FY2010 to FY2011 was mainly attributable to the following:-

(a) Revenue from the sales of garment and apparel fabrics increased by RMB56.6 million or 40.2%, from RMB140.7 million in FY2010 to RMB197.3 million in FY2011 due mainly to the increase in domestic sales volume of 37.0% compound with an increase of average selling price of 2.3% in FY2011.

(b) Revenue from the sales of shoe fabrics increased by RMB39.2 million or 49.9%, from RMB78.7 million in FY2010 to RMB117.9 million in FY2011 due mainly to the substantial increase in sales volume of 39.8% compounded with the increase in selling price of 7.2% due mainly to the increase in domestic consumption of shoes fabrics in the markets.

(c) Revenue from the sales of luggage and bag fabrics increased by RMB1.7 million or 9.8%, from RMB18.0 million in FY2010 to RMB19.7 million in FY2011 due mainly to the increase in sales volume of 17.8% in FY2011, which was attributed mainly to the increase in sales orders from existing customers. Average selling price of luggage and bag fabrics was at a slightly lower level, decreased by 0.4% in FY2011;

(d) Revenue from the sales of other fabrics increased by RMB12.5 million or 116.6%, from RMB10.7 million in FY2010 to RMB23.2 million in FY2011 due mainly to the increase in sales volume of 79.9% in FY2011, due mainly to increase in the demand of fabrics in car upholstery, toys and equipment for physical training from existing customers, in addition to an increase in average selling price of other fabrics by 9.5% due mainly to the increase of selling price to existing customers.

Gross profit and gross profit margin

Our gross profit increased by approximately RMB50.0 million or 65.7% from approximately RMB76.2 million in FY2010 to RMB126.3 million in FY2011.

The increase in gross profits for FY2011 was due mainly to the increase in sales volume of our functional fabrics in the domestic market which command higher gross margin in addition to the increase of net average selling prices by approximately 5.1%. The gross margin rate therefore increased from 27.9% in FY2010 to 30.7% in FY2011.

Other Income decreased by RMB0.2 million or 10.4% from RMB2.3 million in FY2010 to RMB2.1 million in FY2011 decrease due mainly to the decrease in Government grant offset by the higher interest income due to higher average bank balances.

Selling and distribution expenses increased by RMB01.8 million or 26.7% from RMB7.0 milliion in FY2010 to RMB8.8 million in FY2011 due mainly to the increase in transportation costs due to comparatively higher sales volume in FY2011.
Administrative expenses increased by RMB14.4 million

FINANCIAL & OPERATIONS REVIEW

or 69.6% from RMB20.7 million in FY2010 to RMB35.1 million in FY2011 due mainly to the net increase in the additional salary expenses, travel and office expenses increased attributable to the expansion of the Company's business downstream offset by the cost of share based expenses charged in FY2010.

Analysis of Administrative Expenses	FY2011 RMB In Millions	FY2010 RMB In Millions	Variance RMB In Millions
Salaries and benefits	11.47	10.48	0.99
Travel expenses	0.93	0.32	0.61
Depreciation	1.82	1.77	0.05
Taxes	1.24	0.89	0.35
Amortisation of lease	0.17	0.12	0.05
Electricity and water	0.43	0.28	0.15
Office and miscellaneous expenses	4.62	5.23	(0.61)
Sub total	20.68	19.09	1.59
Downstreaming expenses			
Amortisation of distribution rights	0.60	-	0.60
Samples and development costs	12.92	1.61	11.31
Rental for Product Operating Centre	0.92	-	0.92
Sub total	14.44	1.61	12.83
Grand total	35.12	20.70	14.42

Finance costs increased by RMB1.4 million or 110.3% from RMB1.3 million in FY2010 to RMB2.7 million in FY2011 increased mainly due to higher average bank borrowing level during the year.

Income tax expense increased by RMB11.3 million or 90.4% from RMB12.5 million in FY2010 to RMB23.8 milliion in FY2011 due mainly to the increase in annual profit before tax of the Group in FY2011.

Review of Financial Position

Property, plant and equipment decreased by RMB9.5 million or 10.3% as at 31 December 2011 as compared to 31 December 2010 due mainly to depreciation charge for the period of RMB11.7 million in addition to the loss incurred in disposing some old plant and equipment and motor vehicle of RMB 0.2 million, offset by acquisition and construction of property plant and equipment for RMB2.4 million.

Inventories as at 31 December 2011 were RMB20.6 million increased by RMB6.6 million or 47.2% due to higher turnover ratio during the period resulting from a more stringent control on base inventory. The average inventory turnover days was only 22 days for FY2011 comparing to 36 days for the year ended 31 December 2010.

Trade receivables were RMB128.1 million as at 31 December 2011 increased by RMB66.0 million or 106.3% due mainly to the extension of credit period from 60 days to 90 days in order to maintain competitiveness in the market. The average trade receivables' turnover days was 85 days for FY2011 comparing to 57 days for the year ended 31 December 2010 respectively.

Prepayment and other receivables were RMB7.3 million as at 31 December 2011 increased by RMB5.3 million or 278.5% due mainly to the increase of deposits placed with suppliers for purchases and samplings.

Trade payables were RMB39.5 million increased by RMB1.7 million or 4.5%. The average trade payables' turnover days was reduced to 42 days in FY2011 from 47 days for the year ended 31 December 2010.

Review of Financial Position (Cont'd)

Accruals and other payables decreased by RMB6.9 million or 43.4%, from RMB15.9 million as at 31 December 2010 to RMB9.0 million as at 31 December 2011 due mainly to the accrual of management bonus and more of travelling expenses were included in 31 December 2010 albeit there was an accrual of RMB0.7 million regarding the provision for minimum payment to Goodyear for distribution rights included in FY2011.

Current tax payable decreased by RMB2.3 million or 29.1%, from RMB7.8 million as at 31 December 2010 to RMB5.5 million as at 31 December 2011.

REVIEW OF CASH FLOW

Net cash generated from operating activities

Operating profit before adjustments, working capital changes and income tax paid amounted to RMB80.8 million for FY2011. Adjustment from non-cash items, which comprised mainly amortisation of land use rights and intangible assets, impairment loss on intangible assets, loss on disposal of property, plant and equiptment and depreciation of property, plant and equipment in the sum of RMB14.9 million in FY2011.

Working capital changes resulted in net cash outflows of RMB80.6 million in FY2011. Income tax paid in FY2011 and net interest paid after setting off the amount of interest income amounted to RMB26.0 million and RMB0.9 milliion respectively. As a result, we had net cash outflows from operating activities of RMB11.8 million in FY2011.

Review of Cash Flow (Cont'd)

Net cash used in investing activities

The net cash used in investing activities was RMB7.2 million in FY2011 because of the payments made in relation to the acquistion intangible assets, land use rights and construction of property, plant and equipment.

Net cash generated from financing activities

The net cash generated from financing activities was RMB21.4 million in FY2011 due to net repayment of bank loans compensated by the amount received against issue of shares during the year.

The net increase in cash and cash and equivalents were therefore amounted to RMB2.5 million in FY2011.

BOARD OF DIRECTORS

Mr Lin Daoqin

Mr Liu Yanlong

Mr Teo Moh Gin

Mr Lin Daoqin is our Executive Chairman and CEO. He was appointed to our Board on 19 December 2007. He is the co-founder of our Group and has been spearheading the expansion and growth of our Group. He is instrumental in our growth and development, responsible for our operations, marketing, public relations, as well as formulating and implementing our business strategies and development plans. Mr Lin has over 10 years of experience in various aspects of the fabric weaving industry, including sales and marketing, production, finance, administration and management. Prior to the establishment of our Group, he was in the trading business of textile fabrics from 1995 to 1997. Mr Lin has completed high school education in the PRC. Mr Lin was appointed Executive Director of the Fujian Province Integrity Promotion Commission in December 2005 and was appointed Vice-Chairman of the same Commission in March 2006. In February 2009 Mr Lin was also appointed an official member of CPPCC in Fujian Province Fuqing City.

Mr Liu Yanlong is our Executive Director. He was appointed to our Board on 1 March 2012. He is a Director and the sole shareholder to Asia Brand Capital Pte. Ltd. He was the Investment Analysis Manager of a Hong Kong investment fund - Global Specific Situations Investment Corporation (GSI) for more than 10 years, and is also currently the Secretary General of the China Enterprise Alliance Forum. In addition, Mr Liu served as the Chief Editor of the China Enterprise Alliance Report from 1993 to 1995, and he was also the Editorial Director of the China Market magazine from 1993 to 1995. He held the position of Vice Secretary general of Chinese Industry Development and Planning Association from 1982 to 1992, and was appointed as the Chidf Executive Officer and President of Tianya International Leasing Co., Ltd from 1996 to 1998. Mr Liu graduated from the Beijing Law Institute in 1982 and subsequently graduated from the Graduate School of Chinese Academy of Social Sciences in 1995. In 2006, he also graduated from the National University of Singapore Business School with a degree of Master of Business Administration (Conducted in Chinese).

Mr Teo Moh Gin is our Lead Independent Director. He was appointed to our Board on 5 May 2008. Mr Teo has more than 25 years of global experience in finance, business development and consulting. Mr Teo started his career in 1983 as a consultant in Arthur Andersen where he was in charge of various management consultancy projects. Between 1990 and 1993, he was the senior investment officer in the real estate department of Government of Singapore Investment Corporation responsible for the acquisition and management of prime commercial assets. Subsequently during 1994 and 1995, he was the partner in charge of business development in Veno Technologies (S) Pte Ltd. Between September 1995 and September 1998, Mr Teo was the chief of staff responsible for operations in Credit Suisse Bank. Thereafter, he held the position of Senior Vice President and Chief Financial Officer overseeing the finance and corporate development in System Access Ltd and subsequently in SESAMi Inc from December 1998 until June 2002. From October 2002 until July 2004, he was with Transworld Carnival Corporation as its Chief Executive Officer and was responsible for the overall management of the company. Subsequently from August 2004 to April 2005, he joined GKE International Ltd as their Executive Vice-President and was responsible for the mergers and acquisitions function as well as business development of the company. From June 2005 until March 2006, he was the Managing Director of Global Business Insights Pte Ltd and was responsible for overall management of the company. Between March 2006 and January 2007, Mr Teo was the Chief Corporate Officer of Richland Group and was responsible for finance and corporate development of the company. He is currently a Director of Vive Capital Pte. Ltd. and is involved in investment-related work. Mr Teo obtained a Bachelor of Accountancy (Honours) degree from the National University of Singapore in 1983 and a Postgraduate Diploma in Business Administration from the University of Manchester in 1998.

Mr Soh Chun Bin

Mr Su Chi-ho

Mr Soh Chun Bin is our Independent Director. He was appointed to our Board on 5 May 2008. Mr Soh is currently a partner of Stamford Law Corporation. He received an LL.B. (Honours) degree from the National University of Singapore in 1999 and was qualified as an advocate and solicitor in June 2000. Mr Soh's main area of practice is corporate law, with emphasis on equity capital markets and mergers and acquisitions. Mr Soh has been involved in a number of initial public offerings of both local and foreign corporations, as well as real estate investment trusts. In addition, he also advises on corporate finance transactions, including corporate mergers and acquisitions and take-overs. He has been recognised as a leading lawyer by legal publications such as Chambers and Partners, and AsiaLaw. Mr Soh is currently a member of The Law Society of Singapore.

Mr Su Chi-ho is our Non-Executive Director. He was appointed to our Board on 5 May 2008. He is the co-founder of our Group. Mr Su has more than 40 years of experience in the fabric weaving, dyeing and post-processing treatment industry. Prior to joining our Group, Mr Su was the General Manager of Fuqing Hong Liang Dyeing and Weaving Company from 1994 to 1998. From 1980 to 1994, Mr Su was with Taiwan Tai Kuang Dyeing & Finishing Co., Ltd where he last held the post of Vice-Chairman and General Manager. From 1964 to 1980, Mr Su was with Taiwan BaDe Hengli Dyeing and Treatment Co., Ltd, where he last held the post of the Head of Research and Development. Mr Su has completed secondary school education in Taiwan.

Save for Mdm Lin Xiujin, a substantial shareholder of our company, who is the spouse of Mr Lin Daoqin, none of our Directors is related by blood or marriage to one another. Our Substantial Shareholder, Qian Feng Group Limited is the investment vehicle of Mr Lin Daoqin, Mr Su Chi-ho and Mdm Lin Xiujin (who hold 60%, 10% and 30% respectively in the share capital of Qian Feng Group Limited). To the best of our Directors' knowledge, there is no arrangement or understanding with our substantial shareholder Qian Feng Group Limited, customers, suppliers, or any other person, pursuant to which any of our Directors were appointed.

KEY MANAGEMENT

Mr Lau Tze Cheung, Stanley is our Chief Financial Officer ("CFO"). He joined our Group in January 2008 and is responsible for the preparation of all of our financial statements as well as for reviewing and developing effective financial policies and control procedures for our Group. He has over 20 years of accounting experience with more than 5 years in auditing and management consulting. Between May 1984 and July 1987, he was the accounts supervisor of Swire Group-Camberley Enterprise Ltd. Subsequently, from February 1989 to December 1992, he worked as a Financial Controller and a Finance and Administrative Manager in Ying Tai Far East Limited and its related company Mosaic Designs Limited respectively. Thereafter, Mr Lau joined a sole-proprietor accounting firm from January 1993 to November 2005, where he attained the position of audit manager. During the same period of time, he founded STL Corporate Services Limited where he practised as a management consultant providing advice on business and operational strategies. Prior to joining our Group, he was the CFO of China Kangda Food Company Limited, a company listed on the Singapore Exchange Securities Trading Limited, which he joined in December 2005. Mr Lau holds a Bachelor degree in Business Administration from the Open University of Hong Kong and a Master degree in International Accounting from City University of Hong Kong. Besides, he has obtained memberships in various professional bodies including The Institute of Chartered Secretaries and Administrators, The Hong Kong Institute of Company Secretaries, The Association of International Accountants, Hong Kong Institute of Certified Public Accountants and The Taxation Institute of Hong Kong.

Mr Lu Chao-ho is our Manager for Production. He joined our Group in 2005 and is responsible for our Group's overall factory operations and production. He is also in charge of managing our Group's production operations and quality control. He has over 20 years of experience in fabric dyeing and post-processing treatment technologies. Prior to joining our Group, Mr Lu was the General Manager of Taiwan Zhunying Fibre in charge of dyeing technology and management from 1989 to 2000. Between 2000 and 2004, he was the Manager in Zhejiang Texwell Textile Co., Ltd. in charge of dyeing and processing management. Mr Lu has completed high school education in Taiwan.

Mr Chang Fong-chin is our Manager for Sales and Marketing. He joined our Group in 2004 and is responsible for managing and overseeing our Group's sales and marketing activities. He has over 25 years of experience in fabric products. Prior to joining our Group, he was the division chief of Jang Dah Fiber Corp., Ltd from 1975 to 1980. From 1981 to 2003, he was a Manager in Yixin Knitted Weaving Co., Ltd. in charge of fabric weaving. Mr Chang received his Bachelor of Public Relations degree from World College of Journalism in Taiwan in 1971.

Mr He Sanzhuo is our Manager for Research and Development. He joined our Group in 2006 and is responsible for technology management and research and development strategies and plans of our Group. Mr He has about 19 years of experience in fabric weaving industry, of which about eight years have been spent mainly in research and development. Prior to joining our Group, he was a Manager in charge of weaving technology and production facilities in Yunmeng Arts and Crafts Factory from 1989 to 2001. Between 2001 and 2005, he was the Technical Manager in Fujian Changle Kuiwei Knitted Weaving Co., Ltd . From 2005 to 2006, he was the technical manager in Fujian Changle Hexing Knitted Weaving Co., Ltd . Mr He received his Diploma in Knitted Weaving Engineering from Hubei Province Textile Industry School in 1989.

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CORPORATE GOVERNANCE REPORT

The Board of Directors ("the Board") is committed to maintaining a high standard of corporate governance within the Company and its subsidiaries (the "Group"). The Board has adopted wherever feasible, the recommendations of the Code of Corporate Governance 2005 ("the Code") issued by the Council on Corporate Disclosure and Governance ("CCDG"). This report describes the Group's corporate governance practices with specific reference to each of the principles of the Code.

(A) BOARD MATTERS

Board's Conduct of its Affairs

Principle 1: Every company should be headed by an effective Board to lead and control the company. The Board is collectively responsible for the success of the Company. The Board works with Management to achieve this and the Management remains accountable to the Board.

The Board is responsible for the overall performance of the Group. It sets the Company's values and standards and ensures that the necessary financial and human resources are in place for the Company to achieve its objectives.

The principal functions of the Board include the following:

1. Protecting and enhancing long-term value and return to its shareholders;

2. Establishing, reviewing and approving the board policies, strategies and financial objectives of the Group and monitoring the performance of Management;

3. Overseeing the process for evaluating the adequacy of internal controls, risk management, financial reporting and compliance;

4. Declaration of interim and final dividends, if applicable;

5. Approving the nomination of the Board of Directors and appointment of key personnel;

6. Ensuring the Group's compliance with all relevant and applicable laws and regulations; and

7. Assuming responsibility for the corporate governance of the Group.

To assist the Board in the execution of its responsibilities, the Board is supported by three committees, namely the Audit Committee ("AC"), the Remuneration Committee ("RC") and the Nominating Committee ("NC"). These Committees function within clearly defined terms of reference, which will be reviewed on a regular basis.

Matters which are specifically reserved for the Board's decisions include, in particular, interested person transactions, material acquisitions and disposal of assets, operating budgets and capital expenditure, corporate or financial restructuring, share issuances and declaration of dividends and other returns to shareholders, and other transactions of a material price sensitive nature requiring announcement under the listing rules of the Singapore Exchange Securities Trading Limited (the "SGX-ST"). The Board, based on the AC's recommendation, approves the quarterly and full year financial results for release to the SGX-ST.

The Board meets at least four times a year. Ad-hoc meetings will be convened as and when warranted by particular circumstances between the scheduled meetings. The Company's Bye-Laws allow for participation in Board meetings via telephone and video conferencing.

The attendance of the Directors at the Board meetings and Board Committees meetings held for the financial year ended 31 December 2011 are as follows:

	Board		Audit Committee		Nominating Committee		Remuneration Committee	
Name of Director	No. of meetings held	No. of meetings attended	No. of meetings held	No. of meetings attended	No. of meetings held	No. of meetings attended	No. of meetings held	No. of meetings attended
Mr Lin Daoqin	4	4	4	4(3)	2	2	1	–
Ms Lin Xiujin(1)	4	1	4	2(3)	2	–	1	–
Mr Su Chi-ho	4	0	4	–	2	–	1	–
Mr Teo Moh Gin	4	4	4	4	2	2	1	2
Mr Soh Chun Bin	4	4	4	4	2	2	1	2
Mr Lin Guohua (2)	4	2	4	2	2	–	1	0

(1) Ms Lin Xiujin resigned on 1 March 2012
(2) Mr Lin Guohua resigned on 1 March 2012
(3) By invitation

Independent Directors and Non-Executive Directors are routinely briefed by the Executive Directors or Senior Management at Board meetings or separate sessions, and provided with all necessary updates on regulatory and policy changes as well as developments affecting the Company and the Group. All Independent Directors and Non-Executive Directors may request for additional information from the Executive Directors, Management and/or the Company Secretaries to familiarize them with the Group's business and have access to Executive Directors, Management and the Company Secretaries.

The Directors are also updated regularly with changes to the SGX-ST listing rules and relevant laws and regulations to facilitate effective discharge of their fiduciary duties. The Company has an orientation programme for all new Directors, and also for Directors to attend any appropriate training programme in order to discharge their duties as Directors.

Any newly appointed Directors will be briefed by the Management on the business activities of the Group, governance policies, policies on disclosure of interests in securities, the rules relating to disclosure of any conflict of interest in a transaction involving the Company, prohibitions in dealing in the Company's securities and restrictions on disclosure of price sensitive information and furnished with information and updates on the Group's corporate governance practices at the time of appointment as well as the latest updates in laws and regulations affecting the Group's business.

Board Composition and Guidance

Principle 2: There should be a strong and independent element on the Board, which is able to exercise objective judgment on corporate affairs independently, in particular, from Management. No individual or small group of individuals should be allowed to dominate the Board's decision-making.

Presently, the Board comprises two Executive Directors, one Non-Executive Director and two Independent Directors:

Executive Directors

Mr Lin Daoqin (Executive Chairman and Chief Executive Officer)
Mr Liu Yanlong (appointed on 1 March 2012)

Non-Executive Director

Mr Su Chi-ho (re-designated as Non-Executive Director on 1 March 2012)

Independent Directors

Mr Teo Moh Gin (Lead Independent Director)
Mr Soh Chun Bin

The NC considers an “independent” Director as one who has no relationship with the Company, its related corporations or its officers that could interfere or be reasonably perceived to interfere, with the exercise of the Director’s independent business judgment with a view to the best interests of the Company.

The NC has reviewed the independence of each Independent Director and is of the view that these Directors are independent.

The Board considers that the current Board size and number of Committees facilitate effective decision-making and are appropriate for business nature and scope of Company’s operations.

As a Group, the Directors bring with them a broad range of expertise and experience in areas such as accounting, finance, business and management experience, industry knowledge, strategic planning experience and customer-based experienced and knowledge. The diversity of the Directors’ experience allows for the useful exchange of ideas and views.

The profile of the Directors is set out in ‘Board of Directors’ section of this Annual Report.

Chairman and Chief Executive Officer (“CEO”)

Principle 3: There should be a clear division of responsibilities at the top of the Company – the working of the Board and the executive responsibility of the Company’s business – which will ensure a balance of power and authority, such that no one individual represents a considerable concentration of power

Mr Lin Daoqin, the Executive Chairman and CEO, is also the founders of the Group, takes an active role in the Management of the Group.

Mr Teo Moh Gin, Chairman of the AC, is the Lead Independent Director. Where a situation arises that may involve conflict of interests between the roles of Chairman and CEO, it is the Lead Independent Director’s responsibility, together with the other Independent Directors, to ensure that shareholders’ rights are protected.

The responsibilities of the Chairman include:

1. Scheduling of meetings to enable the Board to perform its duties responsibly while not interfering with the flow of the Group’s operations;

2. Ensuring that Directors receive accurate, timely and clear information, and ensuring effective communication with shareholders;

3. Ensuring the Group’s compliance with the Code; and

4. Acting in the best interest of the Group and of the shareholders.

The Company Secretaries may be called to assist the Chairman in any of the above.

As CEO, Mr Lin Daoqin is responsible for the overall Management, strategic director, ensuring that its organizational objectives are achieved and the day-to-day operations of the Group.

Board Membership

Principle 4: There should be a formal and transparent process for the appointment of new Directors to the Board.

The NC comprises two Independent Directors and one Executive Director as follows:

<u>Nominating Committee</u>

Mr Soh Chun Bin (Chairman)
Mr Teo Moh Gin
Mr Lin Daoqin

The principal functions of the NC are to:

1. Reviewing and making recommendation to the Board on all candidates nominated for appointment to the Board of the Company;

2. Reviewing and recommending to the Board on a regular basis the Board structure, size and composition having regard to the scope and nature of the operations and the core competencies of the Directors as a group;

3. Determine annually the independence of a Director;

4. Review the ability of a Director to adequate carry out his duties as Director when he has multiple Board representations;

5. Recommend to the Board as to which Directors are to retire and to be put forward for re-election at each Annual General Meeting ("AGM"); and

6. Assess the effectiveness of the Board as a whole.

The NC is responsible for identifying and makes recommendations to the Board on all nominations for new appointments and re-appointments to the Board and the Board Committees. It ascertains the independence of Directors and evaluates the Board's performance. In accordance with the Code, the NC has adopted a process for selection and appointment of new directors. In selecting potential new Directors, the NC will seek to identify the competencies required to enable the Board to fulfill its responsibilities. Recommendations for new Board members are put to the Board for its consideration.

The Curriculum Vitae and other particulars/documents of the nominee or candidate will be given to the NC for consideration. The NC will evaluate the suitability of the nominee or candidate based on his qualifications, business and related experience, commitment, ability to contribute to the Board process and such qualities and attributes that may be required by the Board.

In accordance with the Company's Bye-Laws, each Director is required to retire at least once in every three years by rotation and all newly appointed Directors will have to retire at the next AGM following their appointments. The retiring Directors are eligible to offer themselves for re-election.

Each member of the NC shall abstain from voting on any resolutions in respect to his re-nominating as a Director.

The NC has recommended to the Board that Mr Liu Yanlong (who are appointed to the Board on 1 March 2012), Mr Su Chi-ho, Mr Teo Moh Gin and Mr Soh Chun Bin, be nominated for re-election at the forthcoming AGM. The Board had accepted the recommendations and the retiring Directors will be offering themselves for re-election.

For the financial year under review, the NC is of the view that the Independent Directors of the Company are independent (as defined in the Code) and are able to exercise judgment on the corporate affairs of the Group independent of the Management.

The NC has an internal guideline addressing competing time commitments that are faced when Directors serve on multiple boards. Despite some of the Directors having other Board representations, the NC is satisfied that these Directors are able to and have adequately carried out their duties as Directors of the Company.

Key information on Directors of the Company can be found on Page 25 of this Annual Report.

Board Performance

Principle 5: There should be a formal assessment of the effectiveness of the Board as a whole and the contribution by each Director to the effectiveness of the Board.

The NC has implemented a process for assessing the effectiveness of the Board as a whole. During the financial year, each Director was requested to complete evaluation forms to assess the overall effectiveness of the Board. The results of the evaluation exercise were considered by the NC which then makes recommendations to the Board aimed at helping the Board to discharge its duties more effectively. The NC focuses on a set of performance criteria which includes the evaluation of the size and composition of the Board, the Board's access to information, Board's processes and accountability, communication with Senior Management and Directors' standard of conduct in assessing the Board's performance as a whole.

Although the Directors are not evaluated individually, the factors taken into consideration with regards to the re-nomination of Directors for the current year are based on their attendance and contribution made at these meetings.

The Board and the NC have endeavored to ensure that Directors appointed to the Board possess the experience, knowledge and expertise critical to the Group's business.

Access to Information

Principle 6: In order to fulfill their responsibilities, Board members should be provided with complete, adequate and timely information prior to Board meetings and on an on-going basis.

The Board has separate and independent access to the Group's Senior Management, the Company Secretaries and the external auditors at all times. The Directors also have unrestricted access to the Company's records and information, all Board's minutes and Board's Committees' minutes, and Management reports so as to enable them to carry out their duties.

All Directors are provided with complete and adequate information prior to Board meetings and Board Committees meetings and on an ongoing basis. Board papers and Committees papers are prepared for each meeting and are disseminated to the members before the meetings. Board papers and Committees papers include financial, business and corporate matters of the Group so as to enable Directors to be properly briefed on matters to be considered at the Board meetings and Committees meetings.

The Company Secretaries or their representatives, attends and prepares minutes of Board meetings and Committees meetings, and assists the Chairman of the Board and/or the AC, RC and NC in ensuring that proper procedures at such meetings are followed and reviewed so that the Board and the Committees function effectively. The appointment and removal of the Company Secretaries will be subjected to the approval of the Board.

Should the Directors, whether as a group or individually, require independent professional advice in furtherance of their duties, the Directors may seek such advice and the costs will be borne by the Company.

(B) REMUNERATION MATTERS

Principle 7: There should be formal and transparent procedures for developing policy on executive remuneration and for fixing the remuneration packages of individual Directors. No Director should be involved in deciding his own remuneration.

The RC comprises two Independent Directors and one Non-Executive Director as follows:

Remuneration Committee

Mr Soh Chun Bin (Chairman)
Mr Teo Moh Gin
Mr Su Chi-ho

Mr Su Chi-ho was appointed as member of RC on 1 March 2012.

The key duties of the RC are:

1. To review and submit its recommendations for endorsement by the entire Board, a framework of remuneration and the specific remuneration packages and terms of employment (where applicable) for each Director, the CEO (if CEO is not a Director), Senior Management and key executives;

2. To review and approve annually the total remuneration of the Directors and key executives; and

3. To review and submit its recommendations for endorsement by the entire Board, Share Option Schemes or any long term incentive schemes which may be set up from time to time and to do all acts necessary in connection therewith.

The annual review of the remuneration packages of all Directors are carried out by the RC to ensure that the remuneration of the Directors and key executives commensurate with their performance, giving due regard to the financial and commercial health and business needs of the Group.

Non-Executive Director and Independent Directors are paid at fixed fees as Directors' fees. The recommendation on the Directors' fees are made in consultation with the Chairman of the Board and submitted for endorsement by the entire Board and is subject to shareholders' approval at the AGM.

No Director is involved in deciding his own remuneration.

The RC has access to seek external of other independent professional advice externally or within the Company with regard to remuneration matters where deem necessary. The expense of such services shall be borne by the Company.

Level and Mix of Remuneration

Principle 8: The level of remuneration should be appropriate to attract, retain and motivate the Directors needed to run the Company successfully but companies should avoid paying more than necessary for this purpose. A significant proportion of Executive Directors' remuneration should be structured so as to link rewards to corporate and individual performance.

The Executive Directors' and key Senior Management remuneration packages are based on service agreements and their remuneration is determined by having regard to the performance of the individuals, the Group and industry benchmarks. The remuneration package for the Executive Directors and key Senior Management staff are made up of both fixed and variable components. The variable component is determined based on the performance of the individual employee as well as the Group's performance.

The Executive Director, Mr Lin Daoqin had service agreement for an initial term of 3 years commencing from 27 August 2008. The service agreement can be terminated by either party giving not less than six (6) months' notice in writing to the other. The Company has just renewed the service agreement with Mr Lin Daoqin for a further period of 3 years commencing from 27 August 2011.

The Executive Director, Mr Liu Yanlong had service agreement for an initial term of 3 years commencing from 29 February 2012. The service agreement can be terminated by either party giving not less than six (6) months' notice in writing to the other.

Non-Executive Director and Independent Directors are paid Directors' fees of an agreed amount based on their contributions, taking into account factors such as effort and time spent, and the respective responsibilities of the Directors. Directors' fees are recommended by the Board for approval at the Company's AGM.

Disclosure of remuneration

Principle 9: Each company should provide clear disclosure of its remuneration policy, level and mix of remuneration, and the procedure for setting remuneration in the Company's annual report. It should provide disclosure in relation to its remuneration policies to enable investors to understand the link between remuneration paid to Directors and key executives, and performance.

Breakdown of each individual Director's remuneration, in percentage terms showing the level and mix for the year ended 31 December 2011 are as follows:

Name of Director	Salary	Bonus	Director's fees	Other benefits	Total
	%	%	%	%	%
Below S$250,000					
Lin Daoqin	100.0	–	–	–	100.0
Liu Yanlong(1)	–	–	–	–	–
Su Chi-ho	100.0	–	–	–	100.0
Teo Moh Gin	–	–	100.0	–	100.0
Soh Chun Bin	–	–	100.0	–	100.0
Lin Xiujin(2)	100.0	–	–	–	100.0
Lin Guohua(3)	–	–	100.0	–	100.0

(1) Mr Liu Yanlong appointed on 1 March 2012
(2) Ms Lin Xiujin resigned on 1 March 2012
(3) Mr Lin Guohua resigned on 1 March 2012

Details of remuneration paid to Top 5 executives of the Group (who are not Directors) for the year ended 31 December 2011 are set out as follows:

Name of executive	Salary	Bonus	Other benefits	Total
	%	%	%	%
Below S$250,000				
Lau Tze Cheung, Stanley	100.0	–	–	100.0
Deng Shihong	99.0	–	1.0	100.0
Lu Chao Ho	100.0	–	–	100.0
He Shanzhuo	99.0	–	1.0	100.0
Chang Fang Chin	100.0	–	–	100.0

Share options and performance shares will be offered to employees as a part of the Company's long-term incentive schemes to attract and retain the relevant persons to support the growth of the Company. During the year, no share options or performance shares were granted to Directors and employees of the Company.

Immediate Family Members of Directors

Other than Ms Lin Xiujin, Mr Shi Gongjian, Mrs Mu Guoron, Mr Lin Daoxing, Mr Lin Xing, Mr. Lin Daoqing, Mrs Lin Yunzhu and Mr Su Jinqiu, no employee of the Group is an immediate family member of a Director or substantial shareholder and whose remuneration exceeds S$150,000 during the year.

(C) ACCOUNTABILITY AND AUDIT

Accountability

Principle 10: The Board should present a balanced and understandable assessment of the Company's performance, position and prospects.

The Board is accountable to shareholders for the Management of the Group. The Board updates shareholders with a detailed and balanced explanation and analysis of the Company's performance, position and prospects on a quarterly basis when it releases its results announcements as well as timely announcements of other matters as prescribed by the relevant rules and regulations.

The Management is accountable to the Board by providing the Board with the necessary financial information, detailed management accounts of the Group's performance, position and prospects on a quarterly basis for the discharge of its duties.

Audit Committee

Principle 11: The Board should establish an Audit Committee with written terms of reference which clearly set out its authority and duties.

The AC comprises entirely Non-Executive Directors, the majority of whom, including the Chairman, are independent.

The AC members are as follows:

Audit Committee

Mr Teo Moh Gin (Chairman)
Mr Soh Chun Bin
Mr Su Chi-ho

Mr Su Chi-ho was appointed as member of AC on 1 March 2012.

The AC meets at least four times a year and as and when deemed appropriate to carry out its functions.

The AC has written terms of reference, setting out their duties and responsibilities, which include the following:

- monitor the integrity of the financial information provided by the Company;
- assess, and challenge, where necessary, the correctness, completeness, and consistency of financial information (including interim reports) before submittal to the Board for approval or made public;
- review any formal announcements relating to the Company's financial performance;
- discuss problems and concerns, if any, arising from the interim audits and final audits, in consultation with the external auditors and the internal auditors where necessary;
- assess the effectiveness of the internal control (including risk management) systems established by Management to identify, assess, manage, and disclose financial and non-financial risks (including those relating to compliances with existing legislation and regulation) at least once a year in compliance with Guideline 12.1 of the Code;
- review Management's and the internal auditors' reports on the effectiveness of the systems for internal control, financial reporting and risk management;
- monitor and assess the role and effectiveness of the internal audit function in the overall context of the Company's risk management system;

- in connection with the terms of engagement to the external auditors, to make recommendations to the Board on the selection, appointment, reappointment, and resignation of the external auditors based upon a thorough assessment of the external auditors' functioning, and approve the remuneration and Terms of Engagement of the external auditors;

- monitor and assess the external auditors' independence and keep the nature and extent of non-audit services provided by the external auditors under review to ensure the external auditors' independence or objectivity are not impaired;

- assess, at the end of the audit cycle, the effectiveness of the audit process; and

- review interested person transactions to consider whether they are on normal commercial terms and are not prejudicial to the interests of the Company or its minority shareholders; and

- review the Company's procedures for detecting fraud and whistle-blowing, and ensure that arrangements are in place by which staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting, financial control, or any other matters.

Apart from the duties listed above, the AC is given the task of commissioning investigations into matters where there is suspected fraud or irregularity, or failure of internal controls or infringement of any law, rule or regulation which has or is likely to have a material impact on the Company's operating results or financial position, and to review its findings.

The Company has put in place a Whistle-Blowing Policy, endorsed by the AC where employees of the Company may, in confidence, raise concerns about possible corporate improprieties in matters of financial reporting or other matters and to ensure that arrangements are in place for the independent investigations of such matters and for appropriate follow up actions.

The AC has full access to and co-operation of Management, and has full discretion to invite any Director or Executive Officer to attend its meetings. It also has reasonable adequate resources to enable it to discharge its functions.

Annually, the AC meets with the external auditors without the presence of Management and had established that the external auditors have had the full co-operation of Management in carrying out the audit and conducts a review of all the non-audit services provided by the external auditors and is satisfied that the nature and extent of such services will not prejudice the independence and objectivity of the external auditors. For the financial year ended 31 December 2011, there were no non-audit fees paid to the external auditors.

The AC had recommended to the Board that Messrs Foo Kon Tan Grant Thornton LLP be nominated for re-appointment as external auditors at the forthcoming AGM of the Company. The Company confirmed that Rule 712, Rule 715 and Rule 716 of the Listing Manual of the SGX-ST had been complied with.

The Board is of the view that the AC members have the relevant expertise to discharge the functions of an AC. Reasonable resources have been made available to the AC to enable them to discharge their duties.

Internal Controls

Principle 12: The Board should ensure that the Management maintains a sound system of internal controls to safeguard the shareholders' investments and the Company's assets.

The AC has reviewed the Company's risk assessment, and based on the IA audit reports and management controls in place, it is satisfied that there are adequate internal controls addressing financial, operational and compliance risks in the Company. The AC expects the risk assessment process to be a continuing process.

Based on the discussion with and the reports submitted by the external auditors and internal auditors, the discussion with the Management, the Board, with the concurrence of the AC is of the opinion that, the system of internal controls addressing financial, operational and compliance risks maintained by the Company and in place throughout the financial year ended 31 December 2011 are adequate and provides reasonable, but not absolute, assurance against material financial misstatements or loss, and includes the safeguarding of assets, the maintenance of proper accounting records, the reliability of financial information, compliance with appropriate legislation, regulations and best practices, and the identification and containment of financial, business and compliance risks. The Board notes that all internal control systems contain inherent limitations and no system of internal controls could provide absolute assurance against the occurrence of material errors, poor judgment in decision-making, human error, losses, fraud or other irregularities.

Internal Audit

Principle 13: The Company should establish an internal audit function that is independent of the activities it audits.

The Company has outsourced its internal audit functions and has appointed a professional firm, Elite Partners CPA Limited, a firm of certified public accountants, as an Internal Auditor. Non-compliance and internal control weaknesses noted during internal audits and the recommendations thereof are reported to the AC as part of the Group's internal control system.

The internal auditors report directly to the AC on internal audit matters and may request from it the necessary resources to adequately perform its functions. The AC will review the adequacy of the internal audit function annually and ensures that the internal audit function is adequately resourced.

(D) COMMUNICATION WITH SHAREHOLDERS

Principle 14: Companies should engage in regular, effective and fair communication with shareholders.

The Company believes in high standards of transparent corporate disclosure, in line with the continuous obligations of the Company under the Listing Manual of the SGX-ST and the Bermuda Companies Act 1981, the Board's policy is that all shareholders should equally and on a timely basis be informed of all major developments that impact the Group.

Where there is inadvertent disclosure made to a selected Group, the Company will make the same disclosure publicly to all others as soon as practicable. Communication is made through:-

- annual reports that are prepared and sent to all shareholders. The Board ensures that the annual report includes all relevant information about the Company and the Group, including future developments and other disclosures as prescribed by the relevant rules and regulations;

- quarterly announcements containing a summary of the financial information and affairs of the Group for that period; and

- notices of explanatory memoranda for AGMs and Extraordinary General Meetings (the "EGMs"). The notice of AGMs and EGMs are also advertised in a national newspaper.

The Company does not practice selective disclosure. Price sensitive information is first publicly released through SGXNet, either before the Company meets with any investors or analysts. All shareholders of the Company will receive the annual report with notice of AGM by post and published in the newspapers within the mandatory period, which is held within four months after the close of the financial year.

GREATER SHAREHOLDER PARTICIPATION

Principle 15: Companies should encourage greater shareholder participation at AGMs, and allow shareholders the opportunity to communicate their views on various matters affecting the Company.

The shareholders are encouraged to attend the Company's AGMs and EGMs to ensure a high level of accountability and to stay informed of the Group's strategies and growth plans. Notice of the AGM is dispatched to shareholders, together with explanatory notes or a circular on items of special businesses (if necessary), at least 14 clear calendar days before the meeting. The Board welcomes questions from shareholders who wish to raise issues, either informally or formally before or during the AGM. The Chairman of the AC, NC and RC are normally present and available to address questions relating to the work of their respective Committees at general meetings. Furthermore, the external auditors are present to assist our Board in addressing any relevant queries by our shareholders.

If any shareholder is unable to attend, he/she is allowed to appoint up to two proxies to vote on his/her behalf at the meeting through proxy forms sent in advance.

Each item of special business included in the notice of the general meetings will be accompanied by explanation of the effects of a proposed resolution. Separate resolutions are proposed for each substantially separate issue at general meetings.

All shareholders of the Company receive the annual report and notice of AGM. At general meetings of shareholders, shareholders are given the opportunity to voice their views and ask Directors or Management questions regarding the Company's affairs. The Chairmen of the AC, RC and NC will normally be presented at AGM to answer any questions relating to the work of these Committees. The external auditors are also present at the AGM to assist the Directors in answering questions from shareholders.

(E) DEALING IN COMPANY'S SECURITIES

The Company has adopted an internal compliance code pursuant to the SGX-ST's best practices on dealing in securities and there are applicable to all its officers in relation to their dealings in the Company's securities. Its officers advised not to deal in the Company's shares during the period commencing two weeks before the announcement of Company's quarterly results and one month before the announcement of the Company's full year results, or if they are in possession of unpublished price-sensitive information of the Company. In addition, Directors and officers are expected to observe insider-trading laws at all times even when dealing in securities within the permitted trading period.

The Company's internal compliance code pursuant to the SGX-ST's best practices on dealing in securities states that officers should not deal in the Company's securities on short-item considerations.

The Group has complied with the Best Practices on dealing in the Company's securities issued by the SGX-ST.

(F) MATERIAL CONTRACTS

Saved for the service agreement entered with the Executive Director on 19 February 2008, there were no material contracts entered into by the Company or any of its subsidiaries involving the interest of the CEO, any Director or controlling shareholder at the end of the financial year ended 31 December 2011.

(G) INTERESTED PERSON TRANSACTIONS

The Company has adopted an internal policy with regard to transactions with interested persons and has set out procedures for review and approval of the Company's interested person transactions. The Company also ensures that all transactions with interested persons are reported on a timely manner to the AC, if any and that the transactions are carried out on a normal commercial terms and will not be prejudicial to the interests of the Company and its minority shareholders. Our Executive Director, Mr Lin Daoqin and Non-Executive Director, Mr Su Chi-ho have provided personal guarantees to Industrial Bank Co, Fuqing Branch in respect of some banking facilities granted to the Company in the sum of RMB10 million. Saved as the aforesaid, there were no interested person transactions which require disclosure pursuant to the rules under the Listing Manual of the SGX-ST.

(H) USE OF INITIAL PUBLIC OFFERING ("IPO") PROCEEDS

As at the date of this report, the net proceeds from the Company's IPO had been utilised as follows:

Use of IPO proceeds	Amount allocated		Amount utilized		Balance	
	S$'000	RMB'000 equivalent	S$'000	RMB'000 equivalent	S$'000	RMB'000 equivalent
To expand our production capacity and construct new facilities	12,800	61,681	6,762	32,588	6,038	29,093
To expand our wastewater treatment capacities	1,800	8,674	1,108	5,340	692	3,334
To expand our research and development capabilities	1,600	7,710	563	2,713	1,037	4,997
For working capital purposes	1,510	7,276	1,510	7,276	–	–
Total net IPO proceeds	17,710	85,341	9,943	47,917	7,767	37,424

The above translation was computed based on the exchange rate of RMB4.8188: S$1.00, prevailing around the time when the IPO proceeds were converted into RMB.

Further announcement will be made by the Company when there are further utilisations of the IPO proceeds.

PARTICULARS OF DIRECTORS PURSUANT TO THE CODE OF CORPORATE GOVERNANCE

Name of Director	Academic/ Professional Qualifications	Board Appointment Executive/ Non-executive	Board Committees as Chairman or Member	Directorship Date First Appointed	Directorships in other listed companies and other major appointments	Past directorships in other listed companies and other major appointments over the preceding 3 years
Mr. Lin Daoqin	High School Education	Executive Chairman and Chief Executive Officer	Board Chairman, Member of NC	19 December 2007	NIL	NIL
Mr. Liu Yanlong	Graduated from Beijing Law Institute and Graduate School of Chinese Academy of Social Sciences, Degree of Master of Business Administration (Conducted in Chinese) from National University of Singapore	Executive Director	Board Member	1 March 2012	NIL	NIL
Mr. Su Chi-ho	Secondary School Education	Non-Executive Director	Board Member, Member of AC and RC	5 May 2008	NIL	NIL
Mr. Teo Moh Gin	Bachelor of Accountancy (Honours) from the National University of Singapore and a Post Graduate Diploma in Business Administration from the University of Manchester	Lead Independent Director	Board Member, Chairman of AC, Member of NC and RC	5 May 2008	• Sinostar PEC Holdings Limited • Yangzijiang Shipbuilding Holdings Ltd	NIL
Mr. Soh Chun Bin	Bachelor of Law (Honours) from the National University of Singapore. He is an Advocate and Solicitor of the Supreme Court of the Republic of Singapore. He is currently a member of The Law Society of Singapore	Independent Director	Board Member, Chairman of NC and RC, Member of AC	5 May 2008	NIL	NIL

DIRECTORS' REPORT

The Directors submit this annual report to the members together with the audited consolidated financial statements of the Group and the statement of financial position of the Company for the financial year ended 31 December 2011.

Names of Directors

The Directors of the Company in office at the date of this report are:

Lin Daoqin - Executive Chairman and Chief Executive Director
Liu Yanlong - Executive Director (Appointed on 1 March 2012)
Su Chi-ho - Non-Executive Director (Re-designated on 1 March 2012)
Teo Moh Gin - Lead Independent Director
Soh Chun Bin - Independent Director
Lin Xiujin - Executive Director (Resigned on 1 March 2012)
Lin Guohua - Non-Executive Director (Resigned on 1 March 2012)

Arrangements to enable Directors to acquire shares or debentures

During or at the end of the financial year, neither the Company nor any of its subsidiaries was a party to any arrangement of which the objects was to enable the Directors of the Company to acquire benefits through the acquisition of shares in or debentures of the Company or of any other corporate body, other than as disclosed in this report.

Directors' interest in shares or debentures

According to the Register of Directors' Shareholdings kept by the Company, particulars of interests of Directors who held office at the end of the financial year (including those of their spouses and infant children) in shares in the Company and in related corporations are as follows:

	Holdings registered in the name of Director			**Holdings in which Director is deemed to have an interest**		
Asia Fashion Holdings Limited (formerly known as Qian Feng Fabric Tech Limited)						
The Company	Number of shares of US$0.05 each					
	As at 1.1.2011	**As at 31.12.2011**	**As at 21.01.2012**	As at 1.1.2011	**As at 31.12.2011**	**As at 21.01.2012**
Lin Daoqin [(1)(2)]	14,400,000	**14,400,000**	**14,400,000**	258,809,913	**258,809,913**	**258,809,913**
Lin Xiujin [(1)(2)]	14,400,000	**14,400,000**	**14,400,000**	258,809,913	**258,809,913**	**258,809,913**
Su Chi-ho [(2)]	–	**–**	**–**	244,409,913	**244,409,913**	**244,409,913**
Liu Yanlong [(3)]	–	**–**	**–**	–	**58,800,490**	**58,800,490**
Teo Moh Gin	100,000	**100,000**	**100,000**	–	**–**	**–**
Soh Chun Bin	200,000	**200,000**	**200,000**	–	**–**	**–**
Lin Guohua	–	**–**	**–**	–	**–**	**–**
Qian Feng Group Limited						
The ultimate holding company	Number of shares of US$1.00 each					
Lin Daoqin	6,000	**6,000**	**6,000**	–	**–**	**–**
Su Chi-ho	1,000	**1,000**	**1,000**	–	**–**	**–**
Lin Xiujin	3,000	**3,000**	**3,000**	–	**–**	**–**

(1) Mr Lin Daoqin and Mdm Lin Xiujin are deemed to be interested in the shares held by Qian Feng Group Limited ("Qian Feng Group") (see Note (2) below) and the shares held by each other. Mr Lin Daoqin and Mdm Lin Xiujin are spouses.

Directors' interest in shares or debentures (Cont'd)

(2) Mr Lin Daoqin, Mr Su Chi-ho and Mdm Lin Xiujin are deemed to be interested in 244,409,913 ordinary shares in the Company held by Qian Feng Group. Qian Feng Group is a company which is owned by Mr Lin Daoqin (60%), Mr Su Chi-ho (10%) and Mdm Lin Xiujin (30%).

(3) Mr Liu Yanlong is deemed to be interested in 58,800,490 ordinary shares in the Company held by Asia Brand Capital Pte. Ltd. ("Asia Brand"). Mr. Liu Yanlong is the sole shareholder of Asia Brand.

Directors' benefits

Except as disclosed in Note 19 to the financial statements, since the end of the last financial year, no Director has received or become entitled to receive a benefit by reason of a contract made by the Company and/or its related corporations with the Director, or with a firm of which he is a member or with a company in which he has a substantial financial interest.

Share options

Asia Fashion Employee Share Option Scheme (the "ESOS")

The ESOS was approved by written resolutions of the then sole shareholder, Qian Feng Group Limited on 5 May 2008.

The ESOS is administered by a committee of Directors ("the Committee") appointed by the Board. The Directors who are in the Committee may also participate in the ESOS but under the rules of the ESOS and the provisions of the Listing Manual of the Singapore Exchange Security Trading Limited (the "SGX-ST"), a Director must not be involved in any deliberation or decision in respect of any ESOS Options granted or to be granted to him.

The purpose of the ESOS is to provide an opportunity for Directors (including Non-Executive Directors) and employees of the Group to participate in the equity of the Company so as to motivate them to greater dedication, loyalty and higher standards of performance, and to give recognition to those who have contributed to the success and development of the Company and the Group.

Controlling shareholders and their Associates are not eligible to participate in the ESOS. As the Executive Chairman and Chief Executive Officer, Mr Lin Daoqin, Non-Executive Director, Mr Su Chi-ho and Mdm Lin Xiujin, are controlling shareholders, they will not participate in the ESOS.

The aggregate number of shares over which ESOS Options may be granted, when added to the number of shares issued and issuable in respect of all ESOS Options granted under the ESOS shall not exceed 15% of the issued shares of the Company on the date preceding the grant of the ESOS Option.

Shares allotted and issued on the exercise of an ESOS Option shall be subject to all the provisions of the Bermuda Companies Act, Memorandum of Association and Bye-laws of the Company, and shall rank in full for all entitlements, including dividends or other distributions declared or recommended in respect of the then existing shares, the record date for which falls on or after the relevant exercise date of the ESOS Option, and shall in all other respects rank pari passu with other existing shares then in issue.

There have been no options granted pursuant to the Scheme since its adoption on 5 May 2008.

Share options (Cont'd)

Call option under Chief Financial Officer ("CFO") service agreement

Under his service agreement, the CFO has been granted a call option by the Company, to subscribe for shares amounting to 0.75% of the Company's post-Invitation issued share capital for a consideration equivalent to the Invitation Price per share of S$0.20 each. The call option is exercisable between the 1st day of the 25th month to the 60th month following the admission of the Company to the Official List of the Main Board of the SGX-ST, subject to the terms and conditions of the Call Option Agreement dated 20 February 2008.

No options to take up unissued shares of the Company or its subsidiaries have been granted during the financial year.

No shares were issued during the financial year by virtue of the exercise of options to take up unissued shares of the Company or its subsidiaries.

Save as disclosed above, there were no unissued shares of the Company or its subsidiary under options as at the end of the financial year.

Audit Committee

The Audit Committee (the "AC") at the end of the financial year comprises the following members:

Teo Moh Gin - Chairman
Soh Chun Bin
Su Chi-ho

The AC performs its functions set out in the Listing Manual of the SGX-ST and the Code of Corporate Governance 2005. In performing those functions, the AC reviewed the following:

(i) audit plans of the external auditors and internal auditors and the results of their respective examinations;

(ii) effectiveness of actions/policies taken by Management on the recommendations of the external auditors and internal auditors;

(iii) the quarterly financial information and the financial statements of the Group and the Company prior to consideration and approval of the Board; and

(iv) interested person transactions (as defined in Chapter 9 of the Listing Manual of the Singapore Exchange).

The AC has full access to Management and is given the resources required for it to discharge its functions. It has fully authority and the discretion to invite any Director or executive officer to attend its meetings. The AC also recommends the appointment of the external auditor and reviews the level of audit and non-audit fees.

The AC is satisfied with the independence and objectivity of the external auditor and has recommended to the Board of Directors that the auditor, Foo Kon Tan Grant Thornton LLP, be nominated for re-appointment as auditor at the forthcoming Annual General Meeting of the Company.

Independent auditor

The independent auditor, Foo Kon Tan Grant Thornton LLP, Certified Public Accountants, has expressed its willingness to accept re-appointment.

On behalf of the Board of Directors

LIN DAOQIN
Director

LIU YANLONG
Director

15 May 2012

STATEMENT BY DIRECTORS

In the opinion of the Directors, the accompanying statements of financial position, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows, together with the notes thereon, are drawn up so as to give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2011 and of the results of the business, changes in equity and cash flows of the Group for the financial year ended on that date in accordance with Singapore Financial Reporting Standards; and at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

On behalf of the Board of Directors

LIN DAOQIN
Director

LIU YANLONG
Director

15 May 2012

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF ASIA FASHION HOLDINGS LIMITED (FORMERLY KNOWN AS QIAN FENG FABRIC TECH LIMITED)

Report on the Financial Statements

We have audited the accompanying financial statements of Asia Fashion Holdings Limited (formerly known as Qian Feng Fabric Tech Limited, the "Company") and its subsidiaries ("the Group"), which comprise the statements of financial position of the Group and of the Company as at 31 December 2011, the statement of comprehensive income, statement of changes in equity and statement of cash flow of the Group for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Singapore Financial Reporting Standards, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair profit and loss accounts and balance sheets and to maintain accountability of assets.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the 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 management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the consolidated financial statements of the Group and the statement of financial position of the Company are properly drawn up in accordance with Singapore Financial Reporting Standards to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2011 and the results, changes in equity and cash flows of the Group for the year ended on that date.

Foo Kon Tan Grant Thornton LLP
Public Accountants and
Certified Public Accountants

Singapore

15 May 2012

STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2011

		The Company			The Group		
		31 December 2011	31 December 2010 Re-stated	1 January 2010 Re-stated	**31 December 2011**	31 December 2010 Re-stated	1 January 2010 Re-stated
	Notes	**RMB'000**	RMB'000	RMB'000	**RMB'000**	RMB'000	RMB'000
ASSETS							
Non-Current Assets							
Intangible asset	4	**–**	–	–	**–**	–	–
Property, plant and equipment	5	**–**	–	–	**83,225**	92,739	99,091
Land use rights	6	**–**	–	–	**8,194**	4,828	4,939
Subsidiaries	7	**214,293**	206,196	217,684	**–**	–	–
		214,293	206,196	217,684	**91,419**	97,567	104,030
Current Assets							
Inventories	8	**–**	–	–	**20,592**	13,989	25,327
Trade receivables	9	**–**	–	–	**128,059**	62,061	24,291
Prepayments and other receivables	10	**–**	–	–	**7,375**	1,948	595
Cash and cash equivalents	11	**23**	235	43	**346,663**	344,161	284,490
		23	235	43	**502,689**	422,159	334,703
Total assets		**214,316**	206,431	217,727	**594,108**	519,726	438,733
EQUITY							
Share capital	12	**192,203**	172,736	172,736	**192,203**	172,736	172,736
Reserves	13	**15,719**	21,250	41,768	**324,887**	266,835	224,577
Total equity		**207,922**	193,986	214,504	**517,090**	439,571	397,313
Current Liabilities							
Trade payables	14	**–**	–	–	**39,542**	37,835	24,144
Accruals and other payables	15	**6,394**	12,445	3,223	**8,976**	12,566	5,800
Bank loans	16	**–**	–	–	**23,000**	22,000	11,024
Current tax payable		**–**	–	–	**5,500**	7,754	452
		6,394	12,445	3,223	**77,018**	80,155	41,420
Total equity and liabilities		**214,316**	206,431	217,727	**594,108**	519,726	438,733

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2011

	Notes	2011 RMB'000	2010 RMB'000
Revenue	3	**408,133**	274,534
Cost of sales		**(282,772)**	(197,722)
Gross profit		**125,361**	76,812
Other oprtating income	3	**2,072**	2,312
Selling and distribution expenses		**(8,803)**	(6,946)
Administrative expenses		**(35,115)**	(20,700)
Finance costs	17	**(2,698)**	(1,283)
Profit before taxation	18	**80,817**	50,195
Income tax expense	20	**(23,784)**	(12,493)
Profit after taxation		**57,033**	37,702
Other comprehensive income, net of tax		**–**	–
Total comprehensive income attributable to owners of the Company		**57,033**	37,702
Earnings per share		**fen**	fen
- Basic	21	**10.51**	7.69
- Diluted	21	**10.44**	7.64

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2011

	Share capital (Note 12) RMB'000	Share premium (Note 13(a)) RMB'000	Capital reserve (Note 13(b)) RMB'000	Merger reserve (Note 13(c)) RMB'000	Statutory reserve (Note 13(d)) RMB'000	Share option reserve (Note 13(e)) RMB'000	Retained profits RMB'000	Total equity RMB'000
Balance at 1 January 2010	172,736	64,447	–	(64,889)	43,892	898	180,229	397,313
Total comprehensive income for the year	–	–	–	–	–	–	37,702	37,702
Equity settled share-based payment	–	–	4,230	–	–	326	–	4,556
Transfer to statutory reserve	–	–	–	–	786	–	(786)	–
Balance at 31 December 2010	**172,736**	**64,447**	**4,230**	**(64,889)**	**44,678**	**1,224**	**217,145**	**439,571**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**–**	**57,033**	**57,033**
Issue of shares	**19,467**	**1,019**	**–**	**–**	**–**	**–**	**–**	**20,486**
Transfer to statutory reserve	**–**	**–**	**–**	**–**	**625**	**–**	**(625)**	**–**
Balance at 31 December 2011	**192,203**	**65,466**	**4,230**	**(64,889)**	**45,303**	**1,224**	**273,553**	**517,090**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	**2011**	2010 Re-stated
		RMB'000	RMB'000
Cash flows from operating activities			
Profit before taxation		**80,817**	50,195
Adjustments for:			
Amortisation of intangible assets	4	**350**	–
Depreciation of property, plant and equipment	5	**11,749**	11,153
Amortisation of land use rights	6	**159**	111
Impairment loss on intangible assets	4	**1,681**	–
Gain on disposal of subsidiary		**–**	1
Loss on disposal of property, plant and equipment		**126**	–
Equity settled share-based payment	18,19	**–**	4,556
Interest income		**(1,810)**	(1,137)
Interest expense		**2,698**	1,283
Operating profit before working capital changes		**95,770**	66,162
Changes in inventories		**(6,603)**	11,338
Changes in trade receivables		**(65,998)**	(37,771)
Increase in prepayments and other receivables		**(5,427)**	(1,353)
Changes in trade payables		**1,707**	13,691
Changes in accrued liabilities and other payables		**(4,311)**	1,748
Cash generated from operations		**15,138**	53,815
Interest received		**1,810**	1,137
Interest paid		**(2,698)**	(1,283)
Income tax paid		**(26,038)**	(5,191)
Net cash (used in)/generated from operating activities		**(11,788)**	48,478
Cash flows from investing activities			
Acquisition of intangible assets	4	**(1,310)**	–
Acquisition of property, plant and equipment	5	**(2,411)**	(4,801)
Acquisition of land use rights	6	**(3,525)**	–
Proceeds from disposal of property, plant and equipment		**50**	–
Net cash used in investing activities		**(7,196)**	(4,801)
Cash flows from financing activities			
Proceeds from bank loans		**35,000**	15,000
Repayment of bank loans		**(34,000)**	(4,024)
Decrease in fixed deposits pledged to bank		**–**	1,025
Proceeds from issue of shares		**20,486**	–
Deposit received for subscription of shares		**–**	5,018
Net cash generated from financing activities		**21,486**	17,019
Net increase in cash and cash equivalents		**2,502**	60,696
Cash and cash equivalents at beginning		**344,161**	283,465
Cash and cash equivalents at end	11	**346,663**	344,161

Significant non-cash transactions:

During the financial year ended 31 December 2010, the Chief Executive Officer Officer, who is also a controlling shareholder of the Company, transferred 43,500,107 of his shares in the Company at a fair value of RMB4,230,000 to several business consultants in consideration of their services rendered in a Company's private share placement exercise.

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

NOTES TO THE FINANCIAL STATEMENTS

1 General information

The financial statements of the Company and of the Group for the year ended 31 December 2011 were authorised for issue in accordance with a resolution of the directors on the date of the Statement By Directors.

The Company (Registration No.41195) is incorporated as an exempt company with limited liability, in Bermuda and listed on the Singapore Exchange Securities Trading Limited (the “SGX-ST”).

The registered office of the Company is located at Claredon House 2 Church Street Hamilton HM 11 Bermuda. The principal place of business of the Group is located at Jimei Textile Park, Rongqiao Economic Technnology Development Zone, Fuqing City, Fujian Province 350301, the People’s Republic of China.

The immediate and ultimate holding company is Qian Feng Group Limited, incorporated in the British Virgin Islands.

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are set out in Note 7 to the financial statements.

2(a) Basis of preparation

The financial statements are prepared in accordance with Singapore Financial Reporting Standards (“FRS”) including related Interpretations promulgated by the Accounting Standards Council (“ASC”). The financial statements have been prepared under the historical cost convention.

The financial statements are presented in Renminbi (RMB) which is the Company’s functional currency. All financial information presented in RMB has been rounded to the nearest thousand, unless otherwise stated.

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

Information about significant areas of estimation uncertainty and critical judgements applying accounting policies that have the most significant effect on the account recognised in the financial statements are described below.

The accounting policies used by the Group have been applied consistently to all periods presented in these financial statements.

Classification of land use rights

Within the People’s Republic of China, it is the practice for the State to issue land use rights to individuals or entities. Such rights are evidenced through the granting of a land use rights certificate, which gives the holder the right to use the land (including the construction of buildings thereon) for a given length of time. An upfront payment is made for the use of land.

Depreciation of property, plant and equipment

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives. The Group’s business is capital intensive and the annual depreciation of property, plant and equipment forms a significant component of total costs charged to profit or loss. The Group performs annual reviews on whether the assumptions made on useful lives continue to be valid. As changes in the expected level of usage, competitors’ actions and technological obsolescence arising from changes in market demands or service output of the assets could impact the economic useful lives and the residual values of these assets, future depreciation charges could be revised. A 5% (2010: 5%) difference in the expected useful lives of these assets from management’s estimates would result is approximately 1.0% (2010: 1.5%) variance in the Group’s profit for the financial year.

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

Impairment of non-financial assets

Assets that are subject to depreciation and amortisation are reviewed to determine whether there is any such indication that the carrying value of these assets may not be recoverable and have suffered an impairment loss. If any such indication exists, the assets are tested for impairment. The recoverable amounts of the assets are estimated in order to determine the extent of the impairment loss, if any. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Such impairment loss is recognised in profit or loss.

Management judgement is required in the area of asset impairment, particularly in assessing: (1) whether an event has occurred that may indicate that the related asset values may not be recoverable; (2) whether the carrying value of an asset can be supported by the net present value of future cash flows which are estimated based upon the continued use of the asset in the business; and (3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rate or growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test and as a result affect the Group's results.

Impairment of subsidiaries

Determining whether investments in subsidiaries are impaired requires an estimation of the value-in-use those investments. The value-in-use calculation requires the Group to estimate the future cash flows expected from the cash-generating units and an appropriate discount rate in order to calculate the present value of the future cash flows. Management has evaluated the impairment of subsidiaries based on such estimates.

Carrying value of inventories

Inventory are stated at lower of cost and net realisable value. In determining the net realisable value, the directors estimate the future selling price in the ordinary course of business, less the estimated costs of selling expenses. Possible changes in these estimates could result in revisions to the valuation of inventories.

Allowance for bad and doubtful debts

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

Withholding tax on dividends

According to local tax in the PRC, dividends distributed from profits generated from 1 January 2008 to the foreign investor by Foreign Invested Enterprises ("FIE") in the PRC, would be subject to withholding tax of 10%. The Group's two subsidiaries in the PRC are considered FIE. Management has considered the above tax exposure and has not provided for deferred tax liability as at 31 December 2011 as payment of dividend can be controlled and it is probable that profits accumulated from 1 January 2008 will not be distributed in the foreseeable future.

Income tax

Significant judgement is involved in determining the group-wide provision for income taxes. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for expected tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

2(b) Interpretations and amendments to published standards effective in 2011

Adoption of new or revised FRS

On 1 January 2011, the Group adopted the new or amended FRS and Interpretations to FRS ("'INT FRS") that are mandatory for application from that date.

Reference	Description
FRS 24	Related Party Disclosures
FRS 32	Classification of Rights Issues
INT FRS 119	Extinguishing Financial Liabilities with Equity Instruments
Improvements to FRSs 2010	

The adoption of these new/revised FRSs and INT FRSs did not result in substantial changes to the Group's accounting policies nor any significant impact on these financial statements.

FRS not effective

At the date of authorisation of these financial statements, the following FRSs and INT FRSs were issued but not yet effective:

FRS 12	Amendments to FRS 12 Deferred Tax: Recovery of Underlying Assets
FRS 19 (revised)	Employee Benefits
FRS 27 (revised)	Consolidated and Separate Financial Statements
FRS 28 (revised)	Investments in Associates and Joint Ventures
FRS 101	Amendments to FRS 101 Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
FRS 107	Amendments to FRS 107 Disclosures – Transfers of Financial Assets
FRS 110	Consolidated Financial Statements
FRS 111	Joint Arrangements
FRS 112	Disclosure of Interests in Other Entities
FRS 113	Fair Value Measurements

The directors do not anticipate that the adoption of other FRSs and INT FRSs in future periods will have a material impact on the financial statements of the Group.

2(c) Summary of significant accounting policies

Consolidation

Business combinations

The consolidated financial statements relate to the Company and its subsidiaries (together referred to as the "Group"). The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable.

The consideration transferred does not include amounts related to the settlement of preexisting relationships. Such amounts are generally recognised in profit or loss.

2(c) Summary of significant accounting policies (cont'd)

Consolidation (cont'd)

Business combinations (cont'd)

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity.

Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

When share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards) and relate to past services, then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based value of the replacement awards compared with the market-based value of the acquiree's awards and the extent to which the replacement awards relate to past and/or future service.

Goodwill is stated after separate recognition of identifiable intangible assets. It is calculated as the excess of the sum of a) fair value of consideration transferred, b) the recognised amount of any non-controlling interest in the acquire and c) acquisition-date fair value of any existing equity interest in the acquiree, over the acquisition-date fair values of identifiable net assets. If the fair values of identifiable net assets exceed the sum calculated above, the excess amount (ie gain on a bargain purchase) is recognised in profit or loss immediately.

Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Investments in subsidiaries are stated in the Company's statement of financial position at cost less accumulated impairment losses. The accounting policies for subsidiaries are adjusted to be consistent with the policies adopted by the Group.

Loss of control

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently, it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

Transactions eliminated on consolidation

All inter-company balances and significant inter-company transactions and resulting unrealised profits or losses are eliminated on consolidation and the consolidated financial statements reflect external transactions and balances only.

2(c) Summary of significant accounting policies (cont'd)

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses, if any. Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their depreciable amounts over their estimated useful lives as follows:

Buildings	20 years
Plant and machinery	10 years
Motor vehicles	5 years
Furniture, fixtures and office equipment	5 years

Construction-in-progress represents buildings, plant and machinery under construction or pending installation and is stated at cost less accumulated impairment losses, if any. This includes cost of construction, plant and equipment and other direct costs. No provision for depreciation is made on construction-in-progress until such time as the relevant assets are completed and ready for intended use. When the assets concerned are brought into use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy stated above.

The cost of property, plant and equipment includes expenditure that is directly attributable to the acquisition of the items. Dismantlement, removal or restoration costs are included as part of the cost of property, plant and equipment if the obligation for dismantlement, removal or restoration is incurred as a consequence of acquiring or using the asset.

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

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

Depreciation methods, useful lives and residual values are reviewed, and adjusted as appropriate, at end of each reporting period as a change in estimates.

Intangible asset

Intangible asset related to the licencing right acquired from a third party with finite useful lives is measured at cost less accumulated amortisation and impairment losses. Amortisation is calculated on a straight-line basis over its useful economic life of 5 years.

Land use rights

Land use rights are stated at cost less accumulated amortisation and impairment losses, if any. Amortisation is charged to profit or loss using the straight-line basis over the lease term of the rights of 50 years.

Financial assets

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

2(c) Summary of significant accounting policies (cont'd)

Financial assets (cont'd)

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

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

Non-compounding interest and other cash flows resulting from holding financial assets are recognised in profit and loss when received, regardless of how the related carrying amount of financial assets is measured.

The Group does not hold any financial assets at fair value through profit or loss, held-to-maturity investments or available-for-sale financial assets.

Loans and receivables

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

Loans and receivables are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less provision for impairment. Any change in their value is recognised in profit or loss. Any reversal shall not result in a carrying amount that exceeds what the amortised cost would have been had any impairment loss not been recognised at the date the impairment is reversed. Any reversal is recognised in profit or loss.

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

Loans and receivables comprise cash and cash equivalents, trade receivables and other receivables.

Cash and cash equivalents

Cash and cash equivalents comprise cash and bank balances.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a weighted-average basis and includes all costs incurred in bringing the inventories to their present location and condition. In the case of manufactured inventories, cost includes the cost of raw materials, direct labour and an appropriate proportion of production overheads based on the normal level of activity.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale. Allowance is made for obsolete, slow-moving and defective inventories in arriving at the net realisable value. The amount of any write-down of inventories to net realisable value is recognised as an expense in the period the write-down occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

2(c) Summary of significant accounting policies (cont'd)

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of new ordinary shares are deducted against the share premium account.

Research

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in profit or loss as incurred.

Dividends

Final dividends proposed by the directors are not accounted for in shareholders' equity as an appropriation of retained profit, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because of the articles of association of the Company grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised directly as a liability when they are proposed and declared.

Financial liabilities

The Group's financial liabilities include borrowings, trade payables, and accruals and other payables.

Financial liabilities are recognised when the Group becomes a party to the contractual agreements of the instrument. All interest related charges are recognised as an expense in "finance costs" in profit or loss. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

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

Gains and losses are recognised in the profit and loss account when the liabilities are derecognised as well as through the amortisation process.

Borrowings which are due to be settled within twelve months after the end of reporting period are included in current liabilities in the statement of financial position even though the original terms was for a period longer than twelve months and an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the end of the reporting period. Borrowings to be settled within the Group's normal operating cycle are classified as current. Borrowings with agreements incorporating an overriding repayment on demand clause, which gives the lenders the right to demand repayment at any time, at their sole discretion and irrespective of whether a default event has occurred are considered as current. Other borrowings due to be settled more than twelve months after the end of the reporting period are included in non-current liabilities in the statement of financial position.

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

2(c) Summary of significant accounting policies (cont'd)

Equity settled share-based payments

Share-based payment transactions in which the Group receives services from consultants in exchange for its own equity instruments settled by its shareholders are treated as equity settled share-based payment transactions. The fair value of the consulting services received is recognised as an expense in profit or loss with a corresponding increase in the capital reserve over the service period.

Tax

Tax expense comprises current and deferred tax. Current tax and deferred tax is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of an asset or liability in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and jointly-controlled entities to the extent that the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets and they relate to income taxes levied by the same tax authorities on the same taxable entity, or on different tax entities, provided they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

Operating leases

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

2(c) Summary of significant accounting policies (cont'd)

Key management personnel

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling the activities of the entity. Directors and executive officers are considered key management personnel.

Employee benefits

Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. Accrual is made for the unconsumed leave as a result of services rendered by employees up to the end of the reporting period.

Employee share option

The Company has issued an option to the Chief Financial Officer to subscribe for new ordinary shares of the Company in consideration of his services rendered. The fair value of the employee services received in exchange for the grant of options is recognised as an expense in profit or loss with a corresponding increase in the share option reserve over the vesting period. The total amount to be recognised over the vesting period is determined by reference to the fair value of the options granted on the date of the grant. Non-market vesting conditions are included in the estimation of the number of shares under options that are expected to become exercisable on the vesting date. At end of each reporting period, the Group revises its estimates of the number of shares under option that are expected to become exercisable on the vesting date and recognises the impact of the revision of the estimates in profit or loss, with a corresponding adjustment to the share option reserve over the remaining vesting period.

When the options are exercised, the proceeds received (net of transaction costs) and the related balance previously recognised in the share option reserve is credited to share capital account when new ordinary shares are issued to the employee.

Impairment of non-financial assets

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

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

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

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

2(c) Summary of significant accounting policies (cont'd)

Impairment of non-financial assets (cont'd)

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell and value-in-use, based on an internal discounted cash flow evaluation. All assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist. Any impairment loss is charged to profit or loss.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount or when there is an indication that the impairment loss recognised for the asset no longer exists or decreases. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognised. A reversal of an impairment loss is recognised as income in profit or loss.

Government grants

Government grants are recognised initially as deferred income at fair value when there is reasonable assurance that they will be received and the Group will comply with the conditions associated with the grant.

Grants that compensate the Group for expenses incurred are recognised in profit or loss as other income on a systematic basis in the same periods in which the expenses are recognised. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to profit or loss over the expected useful life of the asset.

Revenue recognition

<u>Sales of goods</u>

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognised when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognised as a reduction of revenue as the sales are recognised.

For sales of goods, transfer of risks and rewards occurs when the goods are received at the customer's warehouse.

<u>Interest income</u>

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

Functional currencies

Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity (the "functional currency"). The Group's principal operations are predominantly conducted in the People's Republic of China ("PRC") and thus the financial statements are presented in Renminbi (to the nearest thousand), which is also the functional currency of the Company.

Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for the effects of all dilutive potential ordinary shares.

2(c) Summary of significant accounting policies (cont'd)

Foreign currency

Transactions and balances

Transactions in a currency other than the functional currency ("foreign currency") are translated into the functional currency using the exchange rates at the dates of the transactions. Currency translation differences from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the closing rates at the reporting date are recognised in profit or loss, unless they arise from borrowings in foreign currencies, other currency instruments designated and qualifying as net investment hedges and net investment in foreign operations. Those currency translation differences are recognised in the currency translation reserve in the consolidated financial statements and transferred to profit or loss as part of the gain or loss on disposal of the foreign operation.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the date of the date of the transaction. Foreign currency differences arising on retranslation are recognised in profit or loss..

Group entities

None of the group entities' currencies is the currency of a hyper-inflationary economy. The results and financial positions of all the entities within the Group that have functional currencies different from the presentation currency are translated into the presentation currency as follows:

(i) Assets and liabilities are translated at the closing rate at the end of the reporting period;

(ii) Income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) All resulting exchange differences are recognised as a separate component of equity.

Net investment in a foreign operation

Exchange differences arising from monetary items that in substance form part of the Company's net investment in a foreign operation are recognised in the Company's statement of comprehensive income. Such exchange differences are reclassified to other comprehensive income and are accumulated in a separate component of equity in the consolidated financial statements. When the net investment is disposed of, the cumulative amount in equity is transferred to the consolidated statement of comprehensive income as an adjustment to the profit or loss arising on disposal.All resulting currency translation differences are recognised in the translation reserve in equity.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Operating segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Group's chief operating decision maker, who is the Group chief executive officer, to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

Segment results that are reported to the chief operating decision maker include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate expenses, financial income and expenses, and income tax expense.

3 Revenue and other operating income

The Group	2011 RMB'000	2010 RMB'000
Revenue		
Sale of dyed fabrics	**408,133**	274,534
Other operating income		
Sale of scrap materials	**212**	109
Interest income	**1,810**	1,137
Foreign exchange gain	**1**	16
Government grant	**49**	1,050
	2,072	2,312

4 Intangible asset

The Group and The Company	RMB'000
Cost	
At 1 January 2011	–
Additions	2,031
At 31 December 2011	2,031
Accumulated amortisation	
At 1 January 2011	–
Amortisation charge	350
Impairment loss #	1,681
At 31 December 2011	2,031
Net book value	
At 31 December 2011	**–**

In March 2011, the Company entered into a Trademark Licence Agreement (the "Agreement") with The Goodyear Tire & Rubber Company ("Goodyear) for a right to produce, distribute, advertise and promote the products bearing Goodyear trademarks which includes, amongst others, outdoor performance apparel for men, women and children, outdoor and casual footwear for men, women and children, accessories, bags, outdoor equipment, gifts and souvenirs (the "Goodyear Products"). In March 2011, the Company received a letter from Goodyear confirming its appointment as a licencee for the Goodyear Products.

In accordance with the Agreement, amongst other things, the Company is required to:

(i) make payment of US$1.27 million to Goodyear at dates from March 2011 to June 2015. Of the US$1.27 million, US$200,000 was due and payable upon execution of the Agreement in March 2011 and US$110,000 by 31 December 2011; and

(ii) set up a minimum of 10, 40 80, 120 and 160 retail outlets and supply the Licensed Goodyear Products to these outlets by 31 December 2011, 31 December 2012, 31 December 2013, 31 December 2014 and 31 December 2015, respectively.

At 31 December 2011, the Company had paid Goodyear US$200,000 (RMB1,310,000) and accrued US$110,000 (RMB721,000 in Note 15).

At 31 December 2011, the Company had not set up any retail outlets due to unforeseen delays in procuring approval of the Licensed Goodyear Products from Goodyear's authorised agent. The failure to set up at least 10 retail outlets by 31 December 2011 constituted a breach of the contractual term and Goodyear has the right to terminate the Agreement. Goodyear has not granted a waiver of its right to terminate the Agreement.

4 Intangible asset (cont'd)

In view of the facts and circumstances related to the breach of the Agreement, the directors have considered it appropriate to recognise an impairment loss on the carrying amount of the licence fees amounting to RMB1,681,000. Notwithstanding the impairment loss recognised, the Company continues to work on the requirements of the Agreement.

5 Property, plant and equipment

The Group	Construction in progress RMB'000	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Furniture, fixtures and office equipment RMB'000	Total RMB'000
Cost						
At 1 January 2010	–	60,168	73,075	1,568	1,153	135,964
Additions	4,029	–	545	155	72	4,801
Transfers	(4,029)	243	3,786	–	–	–
At 31 December 2010	–	60,411	77,406	1,723	1,225	140,765
Additions	**–**	**301**	**1,828**	**235**	**47**	**2,411**
Disposals	**–**	**–**	**(421)**	**(199)**	**–**	**(620)**
At 31 December 2011	**–**	**60,712**	**78,813**	**1,759**	**1,272**	**142,556**
Accumulated depreciation						
At 1 January 2010	–	8,291	27,307	618	657	36,873
Depreciation for the year	–	3,056	7,701	260	136	11,153
At 31 December 2010	–	11,347	35,008	878	793	48,026
Depreciation for the year	**–**	**3,071**	**8,224**	**294**	**160**	**11,749**
Disposals	**–**	**–**	**(269)**	**(175)**	**–**	**(444)**
At 31 December 2011	**–**	**14,418**	**42,963**	**997**	**953**	**59,331**
Net book value						
At 31 December 2011	**–**	**46,294**	**35,850**	**762**	**319**	**83,225**
At 31 December 2010	–	49,064	42,398	845	432	92,739

The Group	**2011 RMB'000**	2010 RMB'000
Depreciation is charged to:		
Administrative expenses	**1,815**	1,769
Cost of sales	**9,934**	9,384
	11,749	11,153

All of the Group's property, plant and equipment are located in the PRC.

Certain of the Group's property, plant and equipment with a total net book value of approximately RMB47,732,000 (2010 - RMB68,023,000) are pledged as security for the bank loans (Note 16).

6 Land use rights

The Group	RMB'000
Cost	
At 1 January 2010 and 31 December 2010	5,567
Additions	**3,525**
At 31 December 2011	**9,092**
Accumulated amortisation	
At 1 January 2010	628
Amortisation charge	111
At 31 December 2010	739
Amortisation charge	**159**
At 31 December 2011	**898**
Net book value	
At 31 December 2011	**8,194**
At 31 December 2010	4,828

The Group has land use rights over 3 parcels of land located in Fuqing City, Fujian Province, PRC, where the Group's production facilities reside.

The Group's land use rights are pledged as security for the bank loans (Note 16).

7 Subsidiaries

The Company	2011 RMB'000	2010 RMB'000
Unquoted equity investments, at cost	**62,339**	62,339
Loans to subsidiaries	**151,954**	143,857
	214,293	206,196

Details of the subsidiaries are as follows:

Name of company	Country of incorporation	Percentage of equity held 2011 %	Percentage of equity held 2010 %	Principal activities
Directly held:				
Asia Fashion Limited (formerly known as Qianfeng International Limited ("Qianfeng Int'l") 亚洲时尚国际有限公司	Hong Kong	**100**	100	Investment holding
Indirectly held:				
Fujian Jiamei Textile Co., Ltd. ("Fujian Jiamei") 福建佳美纺织有限公司	The People's Republic of China	**100**	100	Manufacture of fabrics
Fuzhou Jimei Weaving Co., Ltd. ("Fuzhou Jimei") 福州吉美染织有限公司	The People's Republic of China	**100**	100	Manufacture and sale of fabrics

7 Subsidiaries (cont'd)

All subsidiaries are audited by Foo Kon Tan Grant Thornton LLP for consolidation purposes.

The loans to subsidiaries are unsecured and interest-free. These loans regarded as part of the Company's net investments in the subsidiaries because settlement is neither planned nor likely in the foreseeable future.

8 Inventories, at cost

The Group	**2011 RMB'000**	2010 RMB'000
Raw materials	**11,060**	9,392
Work-in-progress	**5,154**	2,676
Finished goods	**4,378**	1,921
	20,592	13,989
Cost of inventories included in cost of sales	**302,656**	164,416

There was no write-down in the value of inventories during the financial years ended 31 December 2010 and 2011.

9 Trade receivables

The Group	**2011 RMB'000**	2010 RMB'000
Trade receivables from non-related parties	**128,059**	62,061

Trade receivables are denominated in the followings currencies:

The Group	**2011 RMB'000**	2010 RMB'000
Renminbi	**125,644**	59,922
United States Dollar	**1,763**	1,722
Hong Kong Dollar	**652**	417
	128,059	62,061

10 Prepayments and other receivables

The Group	**2011 RMB'000**	2010 RMB'000
Prepayments	**7,293**	67
Other receivables	**82**	1,881
	7,375	1,948

11 Cash and cash equivalents

	The Company		The Group	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash on hand	**–**	–	**772**	195
Cash at bank	**23**	235	**345,891**	343,966
	23	235	**346,663**	344,161

Cash and cash equivalents are denominated in the following currencies:

	The Company		The Group	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Renminbi	**–**	–	**345,738**	343,919
Hong Kong Dollar	**–**	–	**103**	7
Singapore Dollar	**23**	235	**23**	235
United States Dollar	**–**	–	**799**	–
	23	235	**346,663**	344,161

At the reporting date, interest bearing bank balances amounting to RMB345,868,000 (2010: RMB343,731,000) have a weighted average effective interest rate of 0.35% (2010 - 0.36%) per annum.

12 Share capital

	No. of ordinary shares		Share capital	
	2011	2010	**2011**	2010
The Company	**'000**	'000	**US$'000**	US$'000
Authorised:				
At beginning and end of year	**540,000**	540,000	**27,000**	27,000
Issued and fully paid:				
At beginning of year	**490,002**	490,002	**24,500**	24,500
New shares issued pursuant to subscription agreement	**58,800**	–	**2,940**	–
At end of year	**548,802**	490,002	**#27,440**	**#**24,500
# Issued and fully paid at end of year equivalent to (RMB'000)			**192,203**	172,736

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings. All shares rank equally with regard to the Company's residual assets.

13 Reserves

(a) Share premium

The share premium represents the excess of issue price over the par value of the shares issued, net of share issue expenses.

(b) Capital reserve

The capital reserve represents the fair value of the Chief Executive Officer's shares in the Company transferred to several business consultants in consideration of their services rendered in a Company's private share placement exercise. The Chief Executive Officer is a controlling shareholder of the Company.

(c) Merger reserve

The merger reserve represents the difference between the nominal value of shares issued by the Company in exchange for the nominal value of shares and capital reserve of subsidiaries acquired which was accounted for as a business combination under common control.

(d) Statutory reserve

In accordance with the relevant laws and regulations of the PRC, the subsidiaries of the Company established in the PRC are required to transfer 10% of its profits after taxation prepared in accordance with the accounting standards of the PRC to the statutory reserve until the reserve balance reaches 50% of the respective registered capitals of the subsidiaries. Such reserve may be used to offset accumulated losses or increase the registered capital of these subsidiaries, subject to the approval from the PRC relevant authorities, and are not available for dividend distribution to the shareholders.

(e) Share option reserve

Share option reserve relates to the cumulative value of services received from an employee recorded on grant of equity-settled share option.

14 Trade payables

Trade payables, denominated in RMB, have credit terms ranging from 45 days to 60 days (2010 - 45 to 60 days).

15 Accruals and other payables

	The Company			The Group		
	31 December 2011	31 December 2011	1 January 2010	**31 December 2011**	31 December 2010	1 January 2010
		Re-stated	Re-stated		Re-stated	Re-stated
	RMB'000	RMB'000	RMB'000	**RMB'000**	RMB'000	RMB'000
Accrued operating expenses	**2,701**	3,634	2,619	**8,255**	7,548	4,900
Non-trade amount due to a subsidiary	**2,972**	3,793	604	**–**	–	–
Deposit received for subscription of shares	**–**	5,018	–	**–**	5,018	–
Accrued licence fees (Note 4)	**721**	–	–	**721**	–	–
Other payables	**–**	–	–	**–**	–	900
	6,394	12,445	3,223	**8,976**	12,566	5,800

Non-trade amount due to a subsidiary, comprising mainly advances, is unsecured, interest free and repayable on demand in cash.

15 Accruals and other payables (cont'd)

Accruals and other payables are denominated in the following currencies:

	The Company			The Group		
	31 December 2011	31 December 2010 Re-stated	1 January 2010 Re-stated	**31 December 2011**	31 December 2010 Re-stated	1 January 2010 Re-stated
	RMB'000	RMB'000	RMB'000	**RMB'000**	RMB'000	RMB'000
Renminbi	**5,673**	6,728	2,258	**8,244**	6,838	4,823
Singapore Dollar	**–**	5,717	965	**–**	5,717	965
Hong Kong Dollar	**–**	–	–	**11**	11	12
United States Dollar	**721**	–	–	**721**	–	–
	6,394	12,445	3,223	**8,976**	12,566	5,800

16 Bank loans

The bank loans are denominated in RMB and secured over the Group's property, plant and equipment (Note 5) and land use rights (Note 6).

At the reporting date, the weighted average effective interest rate of the bank loans was 6.77% (2010: 5.47%).

17 Finance costs

The Group	**2011 RMB'000**	2010 RMB'000
Interest on bank loans	**2,698**	1,283

18 Profit before taxation

The following items have been included in arriving at profit before taxation:

The Group	Note	**2011 RMB'000**	2010 RMB'000
Audit fees		**586**	510
Amortisation of intangible assets	4	**350**	–
Depreciation of property, plant and equipment	5	**11,749**	11,153
Amortisation of land use rights	6	**159**	111
Loss on disposal of property, plant and equipment		**126**	–
Foreign exchange loss		**–**	143
Cost of inventories included in cost of sales		**302,656**	164,416
Product prototype costs		**7,105**	–
Research expenses		**4,057**	1,997
Equity-settled share-based payment	13(b)	**–**	4,230
Staff costs	19	**24,762**	14,901

19 Staff costs

The Group	2011 RMB'000	2010 RMB'000
Key management personnel		
- Directors		
- salaries and related costs	**2,505**	3,363
- Executive officers		
- salaries and related costs	**1,621**	840
- equity-settled share-based payment	**–**	326
Other than key management personnel		
- salaries and related costs	**19,349**	9,470
- employer's contributions to defined contribution plans	**1,287**	902
Total staff costs	**24,762**	14,901

20 Income tax expense

The Group	2011 RMB'000	2010 RMB'000
Current tax expense	**23,784**	12,493

Reconciliation of effective tax rate

The Group	2011 RMB'000	2010 RMB'000
Profit before taxation	**80,817**	50,195
Tax calculated at applicable tax rate of 24% (2010:22%)	**19,396**	11,043
Tax exempt income	**(864)**	(702)
Effect of tax rates in foreign jurisdictions	**2,644**	1,888
Tax effect on non-deductible expenses	**303**	262
Deferred tax asset on losses not recognised	**2,305**	2
	23,784	12,493

The Company ("Asia Fashion"), incorporated in the Bermuda, is exempt from income tax.

Asia Fashion Limited, incorporated in Hong Kong, is subject to tax rate of 16.5% (2010 - 16.5%). It has no taxable income for the years ended 31 December 2011 and 2010.

The Group's operating subsidiaries, Fuzhou Jimei Dyeing and Weaving Co., Ltd. ("Fuzhou Jimei") and Fujian Jiamei Textile Co., Ltd ("Fujian Jiamei") are located in the PRC. Fuzhou Jimei and Fujian Jiamei are subject to a preferential rate of 24% an 12%, respectively.

The Group has not recognised a deferred tax asset in respect of tax losses incurred during the financial year because management believes that it is not probable that these tax losses would be allowed by the tax authorities.

No deferred tax has been provided as the Group did not have any significant temporary differences which gave rise to a deferred tax asset or liability at 31 December 2011 and 2010.

21 Earnings per share

The Group	2011 RMB'000	2010 RMB'000
Net profit attributable to equity holders of the Company (RMB'000) (A)	**57,033**	37,702
	Number of Shares	
Weighted average number of ordinary shares in issue for f basic earnings per share (B)	**542,604,694**	490,002,148
Effect of dilutive potential ordinary shares - share option	**3,675,016**	3,675,016
Weighted average number of ordinary shares for diluted earnings per share (C)	**546,279,710**	493,677,164
Basic earnings per share (fen) (A)/(B)	**10.51**	7.69
Diluted earnings per share (fen) (A)/ (C)	**10.44**	7.64

22 Employee benefits

The Company and the Group

Employee share option

In August 2008, in accordance with the employment service agreement with the chief financial officer ("CFO") , the Company granted the CFO an option to subscribe for 3,675,016 new shares in the Company at an exercise price of Singapore dollars (SGD) 0.20 per share which was the Company's Initial Public Offering share price. The option is exercisable between 27 August 2010 and 26 August 2013 subject to satisfaction of certain conditions.

Outstanding option at the reporting date is as follows:

The Group	2011 Option	2010 Option
Outstanding at 1 January and 31 December	**3,675,016**	3,675,016
Exercisable at 31 December	**3,675,016**	3,675,016

The remaining contractual life of share options outstanding at the end of the year is 2 (2010 – 3.2) years.

No options were exercised during the financial years ended 31 December 2010 and 2011.

The fair value of the option was determined using Black-Scholes Option Pricing Mode at the measurement date. The fair value and assumptions are set out below:

The Group

Share price at grant date	SGD 0.065
Exercise price	SGD 0.20
Expected volatility	84.78%
Risk-free interest rate	0.95%
Expected dividend yield	0%
Fair value at measurement date	SGD 0.068

The exercise price at the grant date is based on the Company's Initial Public Offering share price. The expected volatility is measured by the standard deviation of up to 17 months closing share prices of comparable companies prior to the grant date. The risk-free interest rate is based on the 5-year zero-coupon Singapore Government bond yield on the grant date that matches the remaining life of the award.

23 Capital commitments

The Group	2011 RMB'000	2010 RMB'000
Capital expenditure contracted but not provided for in the financial statements		
- purchase of land use rights	–	4,322

24 Operating segments

Business segments

For management purposes, the Group is organised into the following reportable operating segments as follows:

(1) Manufacturing segment comprises production, dyeing and post-processing treatment of loom-state fabric.

(2) Licenced store segment refers to sales of Goodyear products under licencing arrangement (Note 4).

(3) Investment holding (formerly known as "Others") segment.

The chief executive officer monitors the operating results of its operating segments for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on net profit or loss.

Income taxes are managed on a group basis and are not allocated to operating segments.

The Group accounts for intersegment transactions on terms agreed between the parties. Inter-segment transactions are eliminated on consolidation.

24 Operating segments (cont'd)

Business segments (cont'd)

	Manufacturing		Licenced store		Investment holding		Total	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010
		Re-stated				Re-stated		
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Revenue								
External sales	**408,133**	274,534	**–**	–	**–**	–	**408,133**	274,534
Results								
Segment results	**101,825**	58,720	**(13,925)**	–	**(6,457)**	(9,554)	**81,443**	49,166
Interest income	**1,810**	1,137	**–**	–	**–**	–	**1,810**	1,137
Other income	**262**	1,175	**–**	–	**–**	–	**262**	1,175
Finance costs	**(2,698)**	(1,283)	**–**	–	**–**	–	**(2,698)**	(1,283)
Income tax expense	**(23,784)**	(12,493)	**–**	–	**–**	–	**(23,784)**	(12,493)
	77,415	47,256	**(13,925)**	–	**(6,457)**	(9,554)	**57,033**	37,702
Other information								
Segment assets	**592,329**	517,564	**–**	–	**1,779**	2,162	**594,108**	519,726
Total assets							**594,108**	519,726
Segment liabilities	**44,380**	41,738	**–**	–	**4,138**	8,663	**48,518**	50,401
Total liabilities							**77,018**	80,155
Capital expenditure	**5,936**	4,801	**2,031**	–	**–**	–	**7,967**	4,801
Depreciation of property, plant and equipment	**11,749**	11,153	**–**	–	**–**	–	**11,749**	11,153
Amortisation	**159**	111	**350**	–	**–**	–	**509**	111
Impairment loss on intangible asset	**–**	–	**1,681**	–	**–**	–	**1,681**	–
Gain on disposal of subsidiary	**–**	–	**–**	–	**–**	1	**–**	1
Loss on disposal of property, plant and equipment	**126**	–	**–**	–	**–**	–	**126**	–
Equity settled share-based payment	**–**	–	**–**	–	**–**	4,566	**–**	4,566

24 Operating segments (cont'd)

Business segments (cont'd)

	Manufacturing		Investment holding		Total	
	31 December 2010 Re-stated RMB'000	1 January 2010 Re-stated RMB'000	**31 December 2010 Re-stated RMB'000**	1 January 2010 Re-stated RMB'000	**31 December 2010 Re-stated RMB'000**	1 January 2010 Re-stated RMB'000
Revenue						
External sales	**274,534**	266,909	**–**	–	**274,534**	266,909
Results						
Segment results	**58,720**	54,941	**(9,554)**	(6,108)	**49,166**	48,833
Interest income	**1,137**	979	**–**	–	**1,137**	979
Other income	**1,175**	573	**–**	–	**1,175**	573
Finance costs	**(1,283)**	(1,067)	**–**	–	**(1,283)**	(1,067)
Income tax expense	**(12,493)**	(4,609)	**–**	–	**(12,493)**	(4,609)
	47,256	50,817	**(9,554)**	(6,108)	**37,702**	44,709
Other information						
Segment assets	**517,564**	437,655	**2,162**	53	**519,726**	437,708
Total assets					**519,726**	437,708
Segment liabilities	**41,738**	27,313	**8,663**	2,631	**50,401**	29,944
Total liabilities					**80,155**	41,420
Capital expenditure	**4,801**	13,820	**–**	–	**4,801**	13,820
Depreciation of property, plant and equipment	**11,153**	10,579	**–**	–	**11,153**	10,579
Amortisation	**111**	111	**–**	–	**111**	111
Loss on disposal of property, plant and equipment	**–**	12	**–**	–	**–**	12
Equity settled share-based payment	**–**	–	**4,566**	898	**4,566**	898

Reconciliation of reportable segments' liabilities to total liabilities:

The Group	**2011 RMB'000**	2010 RMB'000	2010 RMB'000
Segment liabilities	**48,518**	50,401	29,944
Borrowings	**23,000**	22,000	11,024
Income tax payable	**5,500**	7,754	452
	77,018	80,155	41,420

Geographical information

No separate analysis of segment information by geographical area of operations segment is presented as the Group's business comprising the manufacture and sale of dyed fabrics and the related capital expenditure are attributable to a single geographical region, which is the PRC, including Hong Kong, a Special Administration Region.

25 Financial risk management objectives and policies

The Group's overall financial risk management programme seeks to minimise potential adverse effects of financial performance of the group. Management has in place processes and procedures to monitor the Group's risk exposures whilst balancing the costs associated with such monitoring and management against the costs of risk occurrence. The Group's risk management policies are reviewed periodically for changes in market conditions and the Group's operations.

The Group is exposed to financial risks arising from its operations and the use of financial instruments. The key financial risks include credit risk, liquidity risk and market risk

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

There has been no change to the Group's exposure to these financial risks or the manner in which it manages and measures the risk.

(i) Credit risk

Credit risk refers to the risk that counterparties may default on their contractual obligations resulting in financial loss to the Group. The Group's exposure to credit risk arises primarily from trade and other receivables and bank balances.

The maximum exposure to credit risk is the carrying amount of financial assets which are mainly trade and other debtors and bank balances.

Bank balances

The Group's bank balances are placed with reputable banks that meet appropriate credit criteria.

Trade receivables

The Group's objective is to seek continual growth while minimising losses incurred due to increased credit risk exposure.

There was no concentration of credit risk with respect to trade receivables as the Group has a wide customer base of over 100 customers. None of the Group's customers accounted for 10% or more of the Group's trade receivables as at 31 December 2011.

The Group exposure to credit risks is influenced mainly by the individual characteristics of each customer. The Group typically gives the existing customers credit terms of 60 to 75 days (2010: 60 to 75 days). In deciding whether credit shall be extended, the Group will take into consideration factors such as the relationship with the customer, its payment history and credit worthiness. Management carries out credit review of new customers.

The Group performs on-going credit evaluation of its customers' financial condition and requires no collateral from its customers.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The allowance account in respect of trade and other receivables is used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible. At that point, the financial asset is considered irrecoverable and the amount charged to the allowance account is written off against the carrying amount of the impaired financial asset.

At the reporting date, no allowance for impairment is necessary in respect of trade receivables past due and not pat due and other receivables.

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

(i) Credit risk (cont'd)

The ageing analysis of the trade receivables not impaired is as follows:

The Group	**2011 RMB'000**	2010 RMB'000
Not past due	**85,775**	61,863
Past due less than 30 days	**36,864**	35
Past due 31-120 days	**5,420**	163
	128,059	62,061

(ii) Liquidity risk

Liquidity or funding risk is the risk that an enterprise will encounter difficulty in meeting financial obligations due to shortage of funds. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value.

The Group's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities. The Group ensures that there are adequate funds to meet all its obligations in a timely and cost-effective manner. The Group maintains sufficient level of cash and cash equivalents and has available adequate amount of committed credit facilities from financial institutions to meet its working capital requirements.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of stand-by credit facilities.

The table below analyses the maturity profile of the Company's and the Group's financial liabilities based on contractual undiscounted cash flows.

		Contractual cash flows			
The Group	Carrying amount RMB'000	Total RMB'000	Less than 1 year RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000
At 31 December 2011					
Trade payables	**39,542**	**39,542**	**39,542**	**–**	**–**
Accruals and other payables	**8,976**	**8,976**	**8,976**	**–**	**–**
Bank loans	**23,000**	**23,345**	**23,345**	**–**	**–**
	71,518	**71,863**	**71,863**	**–**	**–**
At 31 December 2010					
Trade payables	37,835	34,510	34,510	–	–
Accruals and other payables	12,566	15,891	15,891	–	–
Bank loans	22,000	22,201	22,201	–	–
	72,401	72,602	72,602	–	–
At 1 January 2010					
Trade payables	24,144	24,144	24,144	–	–
Accruals and other payables	5,800	5,800	5,800	–	–
Bank loans	11,024	11,207	11,207	–	–
	40,968	41,151	41,151	–	–

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

(ii) Liquidity risk (cont'd)

The Company	Carrying amount RMB'000	Contractual cash flows: Total RMB'000	Less than 1 year RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000
At 31 December 2011					
Accruals and other payables	**7,819**	**7,819**	**7,819**	**–**	**–**
	7,819	**7,819**	**7,819**	**–**	**–**
At 31 December 2010					
Accruals and other payables	12,445	12,445	12,445	–	–
	12,445	12,445	12,445	–	–
At 1 January 2010					
Accruals and other payables	3,223	3,223	3,223	–	–
	3,223	3,223	3,223	–	–

(iii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of the Group's and the Company's financial instruments will fluctuate because of changes in market interest rates.

The Group's exposure to interest rate risk arises from its variable rate bank balances and bank loan amounting to RMB345,868,000 (2010: RMB343,731,000) and RMB7,000,000 (2010: RMB7,000,000), respectively.

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore a change in interest rate at the reporting date would not affect profit or loss.

<u>Cash flow sensitivity analysis for variable rate instruments</u>

A 50 (2010: 50) basis points (bp) change in the interest rate of variable rate bank balances and bank loan at the reporting date would have increased (decreased) equity and profit before tax by the amounts shown below. The magnitude represents management's assessment of the likely movement in interest rates under normal economic conditions. This analysis has not taken into account the associated tax effects and assumes that all other variables, in particular foreign currency rates, remain constant.

The Group	Profit before tax: 50 bp increase RMB'000	Profit before tax: 50 bp decrease RMB'000	Equity: 50 bp increase RMB'000	Equity: 50 bp decrease RMB'000
31 December 2011				
Variable rate bank balances	**1,729**	**(1,729)**	**1,729**	**(1,729)**
Variable rate bank loan	**(35)**	**35**	**(35)**	**35**
	1,694	**(1,694)**	**1,694**	**(1,694)**
31 December 2010				
Variable rate bank balances	1,718	(1,718)	1,718	(1,718)
Variable rate bank loan	(35)	35	(35)	35
	1,683	(1,683)	1,683	(1,683)

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

(iv) Foreign currency risk

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

Foreign currency risk arises when transactions are denominated in currencies other than the respective functional currencies of group entities, namely Renminbi and Hong Kong dollar.

At the end of the reporting period, the Group is exposed to foreign currency movements in the Singapore dollar and United States dollar.

Sensitivity analysis for foreign currency risk

A 5% strengthening/weakening of the Singapore dollar (SGD) and United States dollar (USD) against the respective functional currencies of the group entities at 31 December would have increased (decreased) equity and profit before tax by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. This analysis has not taken into account the associated tax effects and assumes that all other variables, in particular interest rates, remain constant.

	The Group		The Company	
	Profit before tax Increase (decrease) RMB'000	Equity Increase (decrease) RMB'000	Profit before tax Increase (decrease) RMB'000	Equity Increase (decrease) RMB'000
31 December 2011				
SGD against RMB				
Strengthened	**1**	**1**	**1**	**1**
weakened	**(1)**	**(1)**	**(1)**	**(1)**
USD against RMB				
strengthened	**92**	**92**	**(36)**	**(36)**
weakened	**(92)**	**(92)**	**36**	**36**
31 December 2010				
SGD against RMB				
Strengthened	(274)	(274)	(274)	(274)
weakened	274	274	274	274
USD against RMB				
strengthened	86	86	–	–
weakened	(86)	(86)	–	–

(v) Market price risk

Price risk is the risk that the value of a financial instrument will fluctuate due to changes in market prices.

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

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

(vi) Fair values of financial instruments

The carrying amounts of financial assets and liabilities with a maturity of less than one year (including trade and other receivables, cash and cash equivalents, current bank loans, and trade and other payables) approximate their fair values because ofthe short period to maturity.

It is not practicable to estimate the fair value of non-current amount due from subsidiary due to the absence of agreed repayment terms and this amount is regarded as extension of capital contribution to the subsidiary.

26 Capital management

The Group's objectives when managing capital are:

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

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

(c) To provide capital for the purpose of strengthening the Group's risk management capability; and

(d) To provide an adequate return to shareholders.

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

The Board of Directors monitors capital based on the net debt to adjusted capital ratio. Net debt comprises total borrowings less cash and cash equivalents. Adjusted capital comprises total equity less statutory reserve.

There were no changes in the Group's approach to capital management during the year.

The Company and its subsidiaries are not subject to externally imposed capital requirements.

The Group	**2011** **RMB'000**	2010 RMB'000
Total borrowings	**23,000**	22,000
Less: Cash and cash equivalents	**(346,663)**	(344,161)
Net debt/ (cash)	**(323,663)**	(322,161)
Total equity	**517,090**	439,571
Less: Statutory reserve	**(45,303)**	(44,678)
Adjusted capital	**471,787**	394,893
Net debt-to-adjusted-capital ratio	**NA#**	NA#

\# Not applicable as the Group is in a net cash position.

27 Comparative information

Comparatives in the financial statements have been reclassified to conform with the current year's presentation to better reflect the nature of the transactions.

(i) During prior years, value-added-tax was presented within accruals and other payables instead of trade payable. The directors have considered it appropriate to restate the financial statements of the prior years by classifying value-added-tax under trade payables. Arising therefrom, the financial statements of the prior years have been restated. The reclassification has no effect on the net assets or the results of the Group in prior years.

Consolidated statement of financial position

	31 December 2010			1 January 2010		
	As previously reported	Reclassification	As re-stated	As previously reported	Reclassification	As re-stated
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables	34,510	3,325	37,835	24,080	64	24,144
Accruals and other payables	15,891	(3,325)	12,566	5,864	(64)	5,800

(ii) The Group has two operating subsidiaries in PRC, Fujian Jiamei and Fujian Jimei. Fujian Jiamei is involved in the manufacture of loom-states fabrics and sells all its products to Fujian Jimei. Fujian Jimei carries on the business of dyeing and post-processing of the loom-state fabrics procured from Fujian Jiamei and for sales to external customers.

In the financial statements of prior years, the Group presented the business of Fujian Jiamei under the " Weaving of loom-state fabrics" operating segment and the business of Fujian Jimei under the "Dyeing and post-processing of loom-state fabrics" operating segment.

These two operating segments should have been combined into a single segment as the businesses of Fujian Jiamei and Fujian Jimei are closely related and their economic outputs combined are for sales to a single group of customers.

The directors have considered it appropriate to re-present the segment reporting in the financial statements of prior years by combining the "Weaving of loom-state fabrics" operating segment and "Dyeing and post-processing of loom-state fabrics" operating segment into one operating segment called "Manufacturing" segment. This re-presentation of segment reporting has no effect on the net assets or the results of the Group in prior years.

STATISTICS OF SHAREHOLDINGS

AS AT 7 MAY 2012

DISTRIBUTION OF SHAREHOLDINGS

SIZE OF SHAREHOLDINGS	NO. OF SHAREHOLDERS	%	NO. OF SHARES	%
1 - 999	0	0.00	0	0.00
1,000 - 10,000	134	38.95	450,077	0.08
10,001 - 1,000,000	192	55.82	29,215,000	5.32
1,000,001 AND ABOVE	18	5.23	519,137,561	94.60
TOTAL	344	100.00	548,802,638	100.00

TWENTY LARGEST SHAREHOLDERS

NO.	NAME	NO. OF SHARES	%
1	PHILLIP SECURITIES PTE LTD	325,876,020	59.38
2	DBS VICKERS SECURITIES (S) PTE LTD	77,167,490	14.06
3	HL BANK NOMINEES (S) PTE LTD	33,811,051	6.16
4	OCBC SECURITIES PRIVATE LTD	22,699,000	4.14
5	HONG LEONG FINANCE NOMINEES PTE LTD	12,890,000	2.35
6	LIM BOON GUAN	10,000,000	1.82
7	RAFFLES NOMINEES (PTE) LTD	7,762,000	1.41
8	CHAN LAI HUNG JOSEPHINE	4,682,000	0.85
9	DMG & PARTNERS SECURITIES PTE LTD	4,654,000	0.85
10	HE XIANGYU	4,237,000	0.77
11	PNG CHENG HENG EDWIN	3,900,000	0.71
12	LIM PENG LIANG DAVID LLEWELLYN	2,000,000	0.36
13	CHANG YEH HONG	1,953,000	0.36
14	TAN CHIO TEE	1,756,000	0.32
15	TAN HOO KIA	1,750,000	0.32
16	LIM CHEO TEE	1,692,000	0.31
17	ZHANG LEI	1,234,000	0.22
18	ANG CHIN MENG	1,074,000	0.20
19	LIM CHYE HUAT @ BOBBY LIM CHYE HUAT	1,000,000	0.18
20	ONG CHIN YAM IAN	1,000,000	0.18
	TOTAL	521,137,561	94.95

STATISTICS OF SHAREHOLDINGS

AS AT 7 MAY 2012

Class of shares	:	Ordinary share
No. of shares (excluding treasury shares)	:	548,802,638
Voting rights	:	One vote per share

As at 7 May 2012, the Company did not hold any treasury shares.

SUBSTANTIAL SHAREHOLDERS

(As recorded in the Register of Substantial Shareholders)

	Direct Interest		Deemed Interest	
	No. of Shares	**%**	**No. of Shares**	**%**
Lin Daoqin (1)(4)	14,400,000	2.62	258,809,913	47.16
Lin Xiujin (1)(4)	14,400,000	2.62	258,809,913	47.16
Su Chi-ho (2)	–	–	244,409,913	44.54
Qian Feng Group Limited (1)(2)(3)(4)	244,409,913	44.54	–	–
DBS Vickers Securities Nominees (Singapore) Pte. Ltd	58,800,490	10.71	–	–
Asia Brand Capital Pte. Ltd. (5)	–	–	58,800,490	10.71
Liu Yanlong (6)	–	–	58,800,490	10.71

Notes:

(1) Mr Lin Daoqin and Mdm Lin Xiujin are deemed interested in the shares held by Qian Feng Group Limited (see Note (3) below) and the shares held by each other. Mr Lin Daoqin and Mdm Lin Xiujin are spouses.

(2) Mr Su Chi-ho is deemed interested in the shares held by Qian Feng Group Limited (see Note (3) below).

(3) Qian Feng Group Limited is an investment holding company incorporated in the BVI and is held by Mr Lin Daoqin (60.0%), Mr Su Chi-ho (10.0%) and Mdm Lin Xiujin (30.0%).

(4) The Shares held by Lin Daoqin, Lin Xiujin and Qian Feng Group Limited are registered in the name of Phillip Securities (HK) Limited.

(5) Asia Brand Capital Pte. Ltd. ("Asia Brand") is the sole beneficial owner of the 58,800,490 ordinary shares held in custodial account with DBS Vickers Securities Nominees (Singapore) Pte. Ltd.

(6) Mr Liu Yanlong is deemed to be interested in 58,800,490 shares in the Company held by Asia Brand. Mr Liu Yanlong is the sole shareholder of Asia Brand.

PERCENTAGE OF SHAREHOLDING IN PUBLIC'S HANDS

As at 7 May 2012, 39.50% of the Company's shares are held in the hands of public. Accordingly, the Company has complied with Rule 723 of the Listing Manual of the SGX-ST which requires 10% of the equity securities (excluding preference shares and convertible equity securities) in a class that is listed to be in the hands of the public.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Asia Fashion Holdings Limited ("the Company") will be held at 6 Battery Road #10-01 Singapore 049909 on Thursday, 31 May 2012 at 10.00 a.m. for the following purposes:

AS ORDINARY BUSINESS

1. To receive and adopt the Directors' Report and the Audited Accounts of the Company and the Group for the year ended 31 December 2011 together with the Auditors' Report thereon. **(Resolution 1)**

2. To re-elect the following Directors of the Company retiring pursuant to Bye-law 85(6) and Bye-law 86(1) of the Bye-Laws of the Company:

   <u>Bye-law 85(6)</u>

   Mr. Liu Yanlong **(Resolution 2)**

   <u>Bye-law 86(1)</u>

   Mr. Su Chi-ho **(Resolution 3)**
   Mr. Teo Moh Gin **(Resolution 4)**
   Mr. Soh Chun Bin **(Resolution 5)**

   [See Explanatory Note (i)]

3. To approve the payment of Directors' fees of S$115,000 and RMB50,000, for the financial year ending 31 December 2012, to be paid quarterly in arrears. (2011: S$115,000 and RMB50,000). **(Resolution 6)**

4. To re-appoint Messrs Foo Kon Tan Grant Thornton LLP as the Auditors of the Company and to authorise the Directors of the Company to fix their remuneration. **(Resolution 7)**

5. To transact any other ordinary business which may properly be transacted at an Annual General Meeting.

AS SPECIAL BUSINESS

To consider and if thought fit, to pass the following resolutions as Ordinary Resolutions, with or without any modifications:

6. **Authority to issue shares in the capital of the Company pursuant to Rule 806 of the Listing Manual of the Singapore Exchange Securities Trading Limited**

   That pursuant to Rule 806 of the Listing Manual of the Singapore Exchange Securities Trading Limited (the "SGX-ST"), the Directors of the Company be authorised and empowered to:

   (a) (i) issue shares in the Company ("shares") whether by way of rights, bonus or otherwise; and/or

   (ii) make or grant offers, agreements or options (collectively, "Instruments") that might or would require shares to be issued, including but not limited to the creation and issue of (as well as adjustments to) options, warrants, debentures or other instruments convertible into shares,

   at any time and upon such terms and conditions and for such purposes and to such persons as the Directors of the Company may in their absolute discretion deem fit; and

   (b) (notwithstanding the authority conferred by this Resolution may have ceased to be in force) issue shares in pursuance of any Instrument made or granted by the Directors of the Company while this Resolution was in force,

   (the "***Share Issue Mandate***")

provided that:

(1) the aggregate number of shares (including shares to be issued in pursuance of the Instruments, made or granted pursuant to this Resolution) and Instruments to be issued pursuant to this Resolution shall not exceed 50% of the total number of issued shares (excluding treasury shares) in the capital of the Company (as calculated in accordance with sub-paragraph (2) below), of which the aggregate number of shares and Instruments to be issued other than on a pro rata basis to existing shareholders of the Company shall not exceed 20% of the total number of issued shares (excluding treasury shares) in the capital of the Company (as calculated in accordance with sub-paragraph (2) below);

(2) (subject to such calculation as may be prescribed by the SGX-ST) for the purpose of determining the aggregate number of shares and Instruments that may be issued under sub-paragraph (1) above, the percentage of issued shares and Instruments shall be based on the number of issued shares (excluding treasury shares) in the capital of the Company at the time of the passing of this Resolution, after adjusting for:

(a) new shares arising from the conversion or exercise of the Instruments or any convertible securities;

(b) new shares arising from exercising share options or vesting of share awards outstanding and subsisting at the time of the passing of this Resolution; and

(c) any subsequent consolidation or subdivision of shares;

(3) in exercising the Share Issue Mandate conferred by this Resolution, the Company shall comply with the provisions of the Listing Manual of the SGX-ST for the time being in force (unless such compliance has been waived by the SGX-ST) and the Bye-Laws of the Company; and

(4) unless revoked or varied by the Company in a general meeting, the Share Issue Mandate shall continue in force (i) until the conclusion of the next Annual General Meeting (the "AGM") of the Company or the date by which the next AGM of the Company is required by law to be held, whichever is earlier or (ii) in the case of shares to be issued in pursuance of the Instruments, made or granted pursuant to this Resolution, until the issuance of such shares in accordance with the terms of the Instruments.

[See Explanatory Note (ii)] **(Resolution 8)**

7. **Authority to issue shares under the Qian Feng Employee Share Option Scheme**

The Directors of the Company be authorised and empowered to offer and grant options under the Qian Feng Employee Share Option Scheme (the "Scheme") and to allot and issue from time to time such number of shares in the capital of the Company as may be required to be issued pursuant to the exercise of options granted by the Company under the Scheme, whether granted during the subsistence of this authority or otherwise, provided always that the aggregate number of additional ordinary shares to be issued pursuant to the Scheme shall not exceed fifteen per centum (15%) of the total number of issued shares (excluding treasury shares) in the capital of the Company from time to time and that such authority shall, unless revoked or varied by the Company in a general meeting, continue in force until the conclusion of the next AGM of the Company or the date by which the next AGM of the Company is required by law to be held, whichever is earlier.

[See Explanatory Note (iii)] **(Resolution 9)**

By Order of the Board
Lau Tze Cheung, Stanley
Ch'ng Li-Ling
Company Secretaries

Singapore, 16 May 2012

Explanatory Notes:

(i) Mr. Su Chi-ho will, upon re-election as a Director of the Company, remain as a member of the Audit Committee and Remuneration Committee and will be considered non-independent.

Mr. Teo Moh Gin will, upon re-election as a Director of the Company, remain as the Chairman of the Audit Committee, a member of the Nominating Committee and Remuneration Committee and will be considered independent.

Mr. Soh Chun Bin will, upon re-election as a Director of the Company, remain as the Chairman of the Nominating Committee and Remuneration Committee, a member of the Audit Committee and will be considered independent.

(ii) Resolution 8, if passed, will empower the Directors of the Company from the date of this AGM until the date of the next AGM of the Company, or the date by which the next AGM of the Company is required by law to be held or such authority is varied or revoked by the Company in a general meeting, whichever is the earlier, to issue shares, make or grant instruments convertible into shares and to issue shares pursuant to such instruments, up to a number not exceeding, in total, 50% of the total number of issued shares (excluding treasury shares) in the capital of the Company, of which up to 20% may be issued other than on a pro-rata basis to existing shareholders of the Company.

For determining the aggregate number of shares that may be issued, the percentage of issued shares in the capital of the Company will be calculated based on the total number of issued shares (excluding treasury shares) in the capital of the Company at the time this Resolution is passed after adjusting for new shares arising from the conversion or exercise of the Instruments or any convertible securities, the exercise of share options or the vesting of share awards outstanding or subsisting at the time when this Resolution is passed and any subsequent consolidation or subdivision of shares.

(iii) Resolution 9, if passed, will empower the Directors of the Company, from the date of this AGM until the next AGM of the Company, or the date by which the next AGM of the Company is required by law to be held or such authority is varied or revoked by the Company in a general meeting, whichever is the earlier, to issue shares in the Company pursuant to the exercise of options granted or to be granted under the Scheme up to a number not exceeding in total (for the entire duration of the Scheme) fifteen per centum (15%) of the total number of issued shares (excluding treasury shares) in the capital of the Company from time to time.

Notes:

1. A registered Shareholder is entitled to attend and vote at the AGM is entitled to appoint not more than 2 proxies to attend and vote in his stead by completing the Shareholder Proxy Form. A proxy needs not be a member of the Company.

2. A Depositor who is a natural person need not submit this Depository Proxy Form if he is attending the AGM in person. A Depositor(s) may nominate not more than two appointees, who shall be natural persons, to attend and vote in his/her place as proxy by completing the Depository Proxy Form.

3. Where a Depositor(s) is a corporation and wishes to be represented at the AGM, it must nominate an Appointee/Appointees to attend and vote as proxy at the AGM by completing the Depository Proxy Form.

4. The duly completed Shareholder Proxy Form and Depository Proxy Form must be deposited at the office of the Singapore Share Transfer Agent, Boardroom Corporate & Advisory Services Pte. Ltd. at 50 Raffles Place #32-01 Singapore Land Tower, Singapore 048623, not less than forty-eight (48) hours before the time of the AGM.

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CORPORATE INFORMATION

BOARD OF DIRECTORS
Lin Daoqin
(Executive Chairman and Chief Executive Officer)

Liu Yanlong
(Executive Director)

Su Chi-ho
(Non-Executive Director)

Teo Moh Gin
(Lead Independent Director)

Soh Chun Bin
(Independent Director)

AUDIT COMMITTEE
Teo Moh Gin (Chairman)
Soh Chun Bin
Su Chi-ho

NOMINATING COMMITTEE
Soh Chun Bin (Chairman)
Teo Moh Gin
Lin Daoqin

REMUNERATION COMMITTEE
Soh Chun Bin (Chairman)
Teo Moh Gin
Su Chi-ho

SECRETARIES
Lau Tze Cheung, Stanley (ACS & ACIS)
Ch'ng Li-Ling (LLB (Hons))

ASSISTANT SECRETARY
Codan Services Limited

REGISTERED OFFICE
Clarendon House, 2 Church Street
Hamilton HM 11, Bermuda

SHARE TRANSFER AGENT
Boardroom Corporate
& Advisory Services Pte. Ltd.
50 Raffles Place #32-01
Singapore Land Tower
Singapore 048623
Tel: (65) 6536 5355
Fax: (65) 6536 1360

AUDITORS
Foo Kon Tan Grant Thornton LLP
47 Hill Street #05-01
Singapore Chinese Chamber of Commerce &
Industry Building
Singapore 179365

AUDIT PARTNER-IN-CHARGE
Toh Kim Teck
(Appointed with effect from financial year
ended 31 December 2011)

ASIA FASHION
亚洲时尚