ASIA FASHION
亚洲时尚

Seizing New Opportunities

ANNUAL REPORT 2012

Contents

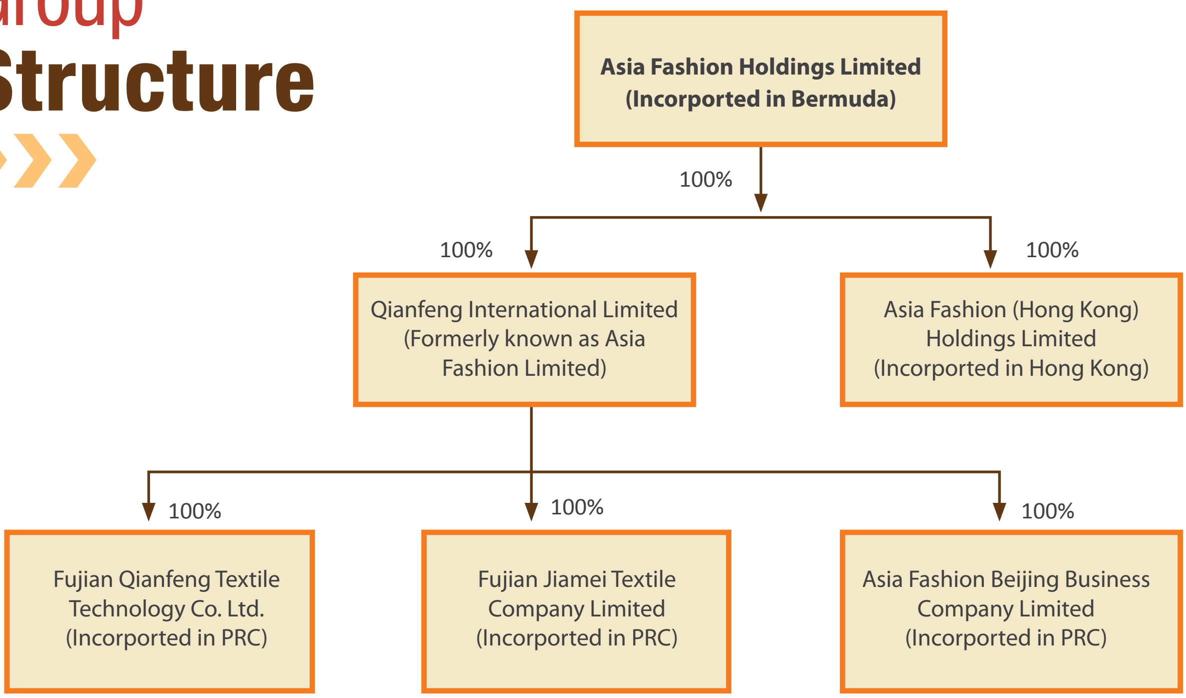
Corporate **Profile**

Asia Fashion Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") is a manufacturer of functional knitted fabrics applicable in a wide variety of products including casual wear, sportswear, shoes and bags.

Strategically located in Fujian Province, one of the largest fabric producing provinces in PRC, we are principally engaged in the knitting, 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 in the PRC from the sportswear industries and fabric trading companies

In February 2013, the Group has entered into a Memorandum of Understanding with potential coal mining companies to consider to acquire their mining concessions in PRC. The potential acquisition will provide an opportunity for the group to diversity into the energy resource industry that brings better value to our shareholders.

Group **Structure**



Chairman's Message

Dear Shareholders,

It is my pleasure to present on behalf of the Board of Directors the consolidated financial results of the group for the year ended 31 December 2012 and an overview of the Group's strategy going forward.

2012 was a very challenging year for the Group due to the global economic slowdown and the industry becoming much more competitive. This has affected the Group performance especially in the economy of scale of our operations.

Revenue for the Group was RMB173.9 million, 57.4% lower than that achieved in FY2011. The drop in revenue was due to the decreased volumes and change of demand in product mix in the market segments in which we are competing.

The Group made a net loss of RMB95.6 million which included RMB61.4 million on inventories written off, provision for compensation of Goodyear business, minimum guaranteed royalty fees and a provision of impairment on the Group's fixed assets.

We are looking seriously into how to redirect our resources to improve the Group's performance into the future.

BUSINESS STRATEGY

The Board believes that the business environment in the coming year is expected to be highly competitive and challenging for the Group. The Group will continue to take appropriate cost control measures by rationalizing its operations, applying prudent credit policy for its customers, and improving product quality in order to achieve improvement in our performance.

Following a strategic review of the Group's business, the Board believes that in the best interest of the Group and shareholders, the Group plans to diversify into an industry that can bring better value to shareholders and divest the current business. As an established player in the fabrics business for over 15 years, it was not an easy decision to make.

The Group therefore is considering entering the energy resource industry. Hence, on 4 February 2013, the Group entered into a Memorandum of Understanding with independent parties to acquire two companies holding coal mining concessions in China. Details of these proposed acquisitions were disclosed in our announcements dated 5 and 18 February 2013 respectively.

APPRECIATION

The Board appreciates the continuous support from our shareholders and wishes to express its utmost gratitude to our loyal customers, business partners, suppliers, bankers and employees, and past directors especially to Mr Teo Moh Gin, Mr Soh Chun Bin and Mr Liu Yanlong, for their invaluable contributions to the Group.

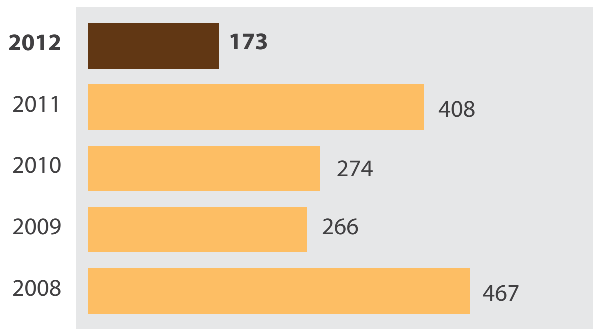
FY2013 will no doubt be challenging for the Group, but we will definitely put in our best effort and hard work to turn the Group around and generate value for our shareholders.

In Nany Sing Charlie
Non-Executive Chairman

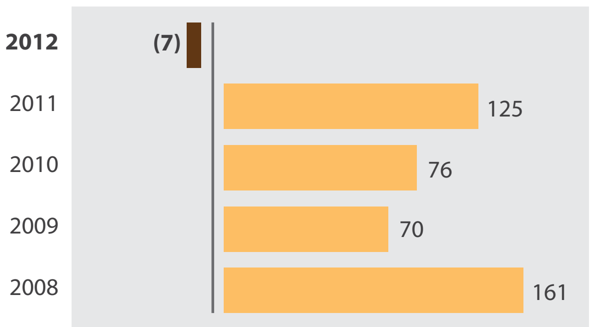
Financial Highlights

	2012 RMB'000	2011 RMB'000	2010 RMB'000	2009 RMB'000	2008 RMB'000
Revenue	173,944	408,133	274,534	266,909	467,077
Gross (loss)/profit	(7,333)	125,361	76,812	70,549	161,059
Operating (loss)/profit	(93,012)	83,515	51,478	50,385	126,964
(Loss)/profit attributable to Shareholders	(95,648)	57,033	37,702	44,709	113,159

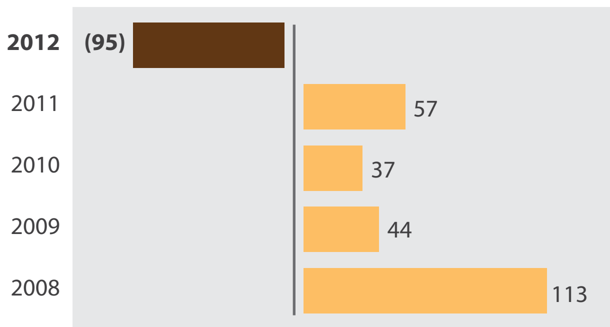
Revenue
(RMB in million)



Gross (loss)/Profit
(RMB in million)



Net (loss)/Profit
(RMB in million)



Financial & Operations Review

REVENUE

The Group's revenue was RMB173.9 million, a decrease of RMB234.2 million compared to RMB408.1 million in FY2011. The drop in revenue was due to the decreased volumes and change of demand in product mix in the market segments in which we are competing.

Revenues from core fabrics segments comprising garment, shoes, luggages, bags and other fabrics, decreased from RMB408.1 million in FY2011 to RMB168.0 million in FY2012. The decreased was attributed to decreased sales volume and change of demand in product mix.

During the year, the Company added a new line of business in retail apparel comprising sport wears, shoes, luggages and bags. Revenue generated from this segment was RMB6.0 million in FY2012.

PROFITABILITY

The Group made a net loss of RMB95.6 million which included RMB61.4 million on inventories written off, provision for compensation of Goodyear business, minimum guaranteed royalty fees and a provision of impairment on the Group's fixed assets.

Due to the early termination of the partnership with Goodyear, the Company made the provision for compensation and minium guaranteed royalty fees of RMB21.9 and RMB5.3 million respectively to the distributors in the PRC.

In FY2012, the management had decided to provide a provision of impairment of RMB 22.5 million on the Group's fixed assets. The estimated fair value of these assets was ascertained by using the consideration offered by a potential third party to write down the value of the fixed assets.

CASH FLOW

The Group will have sufficient cash resources to satisfy its working capital requirements for at least the next financial year. Accordingly, the management considers it appropriate that these financial statements should be prepared on a going concern basis and does not include any adjustments that would be required should the Group fail to continue as a going concern.

Corporate Information

BOARD OF DIRECTORS

In Nany Sing Charlie
(Non-Executive Chairman and Independent Director)

Lin Daoqin
(Executive Director and CEO)

Su Chi-ho
(Non-Executive Director)

Chan Kum Ee
(Independent Director)

Lim Chai Har
(Independent Director)

AUDIT COMMITTEE

Lim Chai Har (Chairman)
In Nany Sing Charlie
Su Chi-ho
Chan Kum Ee

NOMINATING COMMITTEE

In Nany Sing Charlie (Chairman)
Lin Daoqin
Chan Kum Ee
Lim Chai Har

REMUNERATION COMMITTEE

Chan Kum Ee (Chairman)
In Nany Sing Charlie
Su Chi-ho
Lim Chai Har

SECRETARY

Chan Koon Fat, Alfred

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

AUDITOR

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

AUDIT PARTNER-IN-CHARGE

Chang Fook Kay
(Appointed with effect from financial year ended 31 December 2012)

Board of Directors

Dr In Nany Sing Charlie

Mr Lin Daoqin

DR IN NANY SING CHARLIE

Non-Executive Chairman

Appointed on 30 October 2012, Non-Executive Chairman, Chairman of Nomination Committee, Member of Audit Committee and Remuneration Committee

Dr In has extensive experience in business management, capital sourcing, consulting, marketing, mergers and acquisitions. He was instrumental in arranging the public listing of several PRC Companies. He is currently the advisor to Talent Advisory Panel of the People's Association in Singapore.

Dr In is Executive Chairman of Cedar Strategic Holdings Limited and Director of Sino-Excel Energy Ltd. He was the Chairman of Direct Marketing Association of Singapore, an advisor of Asia Pacific Management Institute, . He was also an adjunct faculty member of Singapore Institute of Management for 20 years and 17 years at University of South Australia.

Dr In is the first Singaporean to be honoured as the Most Respected Financial Writer of the Year Award at the 2010 Golden Mulberry Award - Business/Finance sub-category of The Big Ben Award, organized by the British Chinese Youth Federation (BCYF).

Dr In holds a Masters of Business Administration from University of East Asia and a Postgraduate Diploma in Direct Marketing from Macquarie University Australia.

MR LIN DAOQIN

Executive Director/CEO

Appointed on 19 December 2007, Executive Director/ CEO, Member of Nomination Committee

Mr Lin is the co-founder of our Group and has been spearheading the expansion and growth of the Group. He instrumental the Company's growth and development, responsible on the day to dayoperations, marketing, public relations, as well as formulating and implementing business strategies and development plans.

Mr Lin has over 10 years of experiences and strong management skill in various aspects of the fabric weaving industry, including sales and marketing, production, finance and administration. Prior to the establishment of the Group, from 1995 to 1997, he was in textile trading business. Mr Lin had completed high school education in the PRC. In December 2005, Mr Lin was an Executive Director of the Fujian Province Integrity Promotion Commission. In March 2006, he was Vice-Chairman of the same Commission and February 2009 he was an official member of CPPCC in Fujian Province Fuqing City.


Mr Chan Kum Ee, Spencer


Mr Su Chi-ho

MR CHAN KUM EE, SPENCER

Independent Director

Appointed on 30 October 2012, Independent Director, Chairman of Remuneration Committee and Member of Audit Committee and Nomination Committee

Mr Chan an experienced marketing management executive who is currently Chairman of Sino Wealth Financial Ltd. and Managing Consultant of SC Management Pte. Ltd. Formerly vice-president and marketing director of Citibank's Global Consumer Banking in Singapore. He holds a Bachelor of Engineering degree in Mechanical Engineering from the University of Western Australia, Australia, and a Master of Science in Industrial Management from Purdue University, the United States.

MS LIM CHAI HAR, ALICE

Independent Director

Appointed on 30 October 2012, Independent Director, Chairman of Audit Committee, Member of Nomination Committee and Remuneration Committee.

Ms Lim is CFO of Sino-Excel Energy Limited since 2011. She has a total of over 30 years of working experiences in Corporate finance, investment and divestment evaluation and decision process, strategic and long range planning, internal control, corporate governance, RTO/IPO, M&As, tax planning, corporate secretarial, investment relations, HR and administrative in global service/manufacturing environments. Her prior appointment was Group Chief Financial Officer of Ghim Li Group Pte Ltd She graduated with a Master of Business Administration from the University of South Australia.

MR SU CHI-HO

Non-Executive Director

Appointed on 5 May 2008, Non-Executive Director, Member of Audit Committee and Remuneration Committee

Mr Su is the co-founder of the Group. Mr Su has more than 40 years of experience in the fabric weaving, dyeing and post-processing treatment industry. Prior to joining the 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 as Vice-Chairman and General Manager. From 1964 to 1980, Mr Su was with Taiwan BaDe Hengli Dyeing and Treatment Co., Ltd, who headed theResearch and Development Division.

Key Management

MR CHAN KOON FAT, ALFRED

Chief Financial Officer ("CFO")

Mr Chan joined the Group in September 2012 and is responsible for the preparation of all of our financial statements, review and develop effective financial policies and control procedures for the Group. Mr Chan has 12 years of experience in the field of accounting. He was at PKF Certified Public Accountants. Since August 2007, he was the financial controller of Sunray Holdings Limited, a company listed on the Singapore Stock Exchange.

He holds a Bachelor degree in Accounting from Hong Kong Lingnan University and Master of Business Administration programme, in financial services, from Hong Kong Polytechnic University. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants.

MR LU CHAO-HO

Manager for Production

Mr Lu joined the Group in 2005 and is responsible for the Group's 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 ZHENG YONG

Manager for Sales and Marketing

Mr Zheng joined the Group in 2006 and was the previous manager in the Group's dyeing department and a manager in its marketing department. He has 13 years of experience in fabric products. Prior to joining our Group, he was a manager of Fuqian Dyeing Knitting Company Limited from 2001 to 2006. Mr Zheng has completed high school education in China.

MR LIN QIN

Manager for Research and Development

Mr Lin joined the Group in 2004 and is responsible for technology management and research and development strategies and plans of our Group. Mr He has about 14 years of experience in fabric weaving industry. Prior to joining our Group, he was a Engineer of Research and Development department of Fuqian Dyeing Knitting Company Limited from 1999 to 2004. He graduated from Fujian Xiamen Light Industry College in 1999.

Financial
Contents

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") The Board has also considered certain corporate practices with reference to the revised Code of Corporate Governance 2012 issued on 2 May 2012 which is effective from financial year commencing on or after 1 November 2012. 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 the 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 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 and they play an important role in ensuring good corporate governance in the Company and within the Group. These terms of reference are reviewed on a regular basis to ensure their continued relevance.

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 return to shareholders, and other transactions of a material price sensitive nature requiring announcement under the listing rules of the Singapore Exchange Securities Trading Limited ("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 viatelephone and video conferencing.

Board's Conduct of its Affairs (Cont'd)

Principle 1: Every company should be headed by the 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. (Cont'd)

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**
Lin Daoqin	5	5	4	4*	2	2	1	1*
Dr. In Nany Sing Charlie (1)	5	1	4	1	2	0	1	0
Chan Kum Ee (1)	5	1	4	1	2	0	1	0
Lim Chai Har (1)	5	1	4	1	2	0	1	0
Liu Yanlong (2)	5	2	4	–	2	–	1	–
Teo Moh Gin (3)	5	4	4	3	2	2	1	1
Soh Chun Bin (3)	5	4	4	3	2	2	1	1
Su Chi-ho (4)	5	0	4	0	2	–	1	1
Lin Xiujin (5)	5	0	4	0	2	0	1	0
Lin Guohua (5)	5	0	4	0	2	0	1	0

(1) Appointed on 30 October 2012

(2) Appointed on 1 March 2012 and resigned on 30 October 2012

(3) Resigned on 30 October 2012

(4) Re-designated as Non-Executive Director and a member of the Audit Committee on 1 March 2012

(5) Resigned on 1 March 2013

* By invitation

Independent Directors and Non-Executive Directors are routinely briefed by the Executive Directors or Senior Managers 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, risk management, corporate governance, insider trading and the key changes in the relevant regulatory requirements and financial reporting standards and the 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.

New releases issued by the SGX-ST which are relevant to the directors are circulated to the Board. The directors are informed of upcoming conferences and seminars relevant to their roles as directors of the Company. Annually, the external auditors update the AC and the Board on the new and revised financial reporting standards.

Any newly appointed Directors will be briefed by the Management on the business activities of the Group, governance policies, policies n disclosure of interests in securities, the rules relating to disclosure of any conflict of interest in a transaction involving the Company's operations prohibitions in dealing in the Company 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 judgement 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 of one Executive Director, one Non-Executive Director and three Independent Directors:

Executive Director

Lin Daoqin (re-designated to Executive Director on 30 October 2012)

Non-Executive Director

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

Independent Directors

Dr In Nany Sing Charlie (Non-Executive Chairman)
Chan Kum Ee
Lim Chai Har

There is presently a strong and independent element on the Board. Half of the Board is made up of Independent Directors and the independence of each Director is reviewed by the NC. The criteria for independence is determined based on the definition as provided in the Code and the independence of each Director is reviewed annually by the NC. 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 judgement 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 the 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 executives 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.

The Company practices a clear division of responsibilities between the Chairman and the CEO to comply with the recommendation of the Code. This ensures an appropriate balance of power and authority between the Chairman and the CEO and thereby allows for increased accountability and greater capacity of the Board for independent decision-making. The Chairman and the CEO are not related to each other.

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 direction and ensuring that the 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 of three Independent Directors and one Executive Director as follows:

Nominating Committee

Dr In Nany Sing Charlie (Chairman)
Mr Chan Kum Ee
Ms Lim Chai Har
Mr Lin Daoqin

Dr. In Nany Sing Charlie was appointed as Chairman of NC on 30 October 2012. Mr. Chan Kum Ee and Ms. Lim Chai Har were appointed as members of NC on 30 October 2012.

The NC's role is to establish a formal and transparent process for:

1. Reviewing and making recommendations 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 adequately 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.

Board Membership (Cont'd)

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

The NC is responsible for identifying and making 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-nomination as a Director.

The NC had recommended to the Board that Dr In Nany Sing Charlie, Ms Lim Chai Har, Mr Chan Kum Ee (all who were appointed to the Board on 30 October 2012) and Mr. Lin Daoqin, 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 23 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 minutes and Board 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

Procedures for Developing Remuneration Policies

Principle 7: There should be formal and transparent procedure 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 of three Independent Directors and one Non-Executive Director as follows:

<u>Remuneration Committee</u>

Mr. Chan Kum Ee (Chairman)
Dr. In Nany Sing Charlie
Mr. Su Chi-ho
Ms. Lim Chai Har

Mr. Chan Kum Ee was appointed as Chairman of RC on 30 October 2012. Mr. Su Chi-ho was appointed as a member of the RC on 1 March 2012. Dr. In Nany Sing Charlie and Ms. Lim Chai Har and were appointed as members of RC on 30 October 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.

Procedures for Developing Remuneration Policies (Cont'd)

Principle 7: There should be formal and transparent procedure 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. (Cont'd)

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 other independent professional advice externally or within the Company with regard to remuneration matters where deem necessary. The expenses 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 Director 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 Director 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 a 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 had renewed the service agreement with Mr. Lin Daoqin for a further period of 3 years commencing from 27 August 2011.

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 2012 is as follows:

Name of director	Salary	Bonus	Director's fees	Other benefits	Total
	%	%	%	%	%
Below S$250,000					
Lin Daoqin	100.0	–	–	–	100.0
In Nany Sing Charlie (1)	–	–	100.0	–	100.0
Liu Yanlong (2)	100.0	–	–	–	100.0
Su Chi-ho	–	–	100.0	–	100.0
Chan Kum Ee (1)	–	–	100.0	–	100.0
Lim Chai Har (1)	–	–	100.0	–	100.0
Teo Moh Gin (3)	–	–	100.0	–	100.0
Soh Chun Bin (3)	–	–	100.0	–	100.0
Lin Xiujin (4)	100.0	–	–	–	100.0
Lin Guohua (4)	–	–	100.0	–	100.0

(1) Appointed on 30 October 2012
(2) Appointed on 1 March 2012 and resigned on 30 October 2012
(3) Resigned on 30 October 2012
(4) 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 2012 are set out as follows:

Name of executive	Salary	Bonus	Other benefits	Total
	%	%	%	%
Below S$250,000				
Chan Koon Fat, Alfred (1)	100.0	–	–	100.0
Lau Tze Cheung, Stanley (2)	100.0	–	–	100.0
Lin Qin	100.0	–	–	100.0
Lin Xuong	100.0	–	–	100.0
Lu Chao Ho	100.0	–	–	100.0

(1) Mr Chan Koon Fat, Alfred appointed on 17 September 2012
(2) Mr Lau Tze Cheung, Stanley resigned on 31 August 2012

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.

In view of confidentiality of remuneration matters, the Board is of the opinion that it is in the best interests of the Group not to disclose the exact remuneration of Executive Officers in the annual report.

(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.

In line with the SGX Listing Rules, the Board provides a negative assurance statement to the shareholders in respect of the interim financial statements. For the financial year under review, the CEO and the Chief Financial Officer have provided assurance to the Board on the integrity of the Group's financial statements.

RISK MANAGEMENT AND INTERNAL CONTROLS

Principle 11: The Board is responsible for the governance of risk. The Board should ensure that the Management maintains a sound system of risk management and internal controls to safeguard the shareholders' interests and the Company's assets, and should determine the nature and extent of the significant risks which the Board is willing to take in achieving its strategic objectives.

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 2012 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.

Audit Committee

Principle 12: 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

Ms. Lim Chai Har (Chairman)
Mr. Su Chi-ho
Dr. In Nany Sing Charlie
Mr. Chan Kum Ee

Ms. Lim Chai Har was appointed as Chairman of AC on 30 October 2012. Dr. In Nany Sing Charlie and Mr. Chan Kum Ee were appointed as member of AC on 30 October 2012. Mr. Su Chi-ho was appointed as member of AC on 1 March 2012.

Audit Committee (Cont'd)

Principle 12: The Board should establish an Audit Committee with written terms of reference which clearly set out its authority and duties. (Cont'd)

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 adequacy and effectiveness of the internal control (including financial, operational, compliance, information technology controls and 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 12.4 of the Code;

- review and ensure that the assurance has been received from the CEO *or equivalent) and the Chief Financial Officer (or equivalent) in relation to the interim/financial unaudited financial statement.

- 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.

Audit Committee (Cont'd)

Principle 12: The Board should establish an Audit Committee with written terms of reference which clearly set out its authority and duties. (Cont'd)

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 2012, there were no non-audit fees paid to the external auditors.

The AC is responsible to conduct an annual review of the volume of audit and non-audit services provided by the External Auditor to ensure such services will not prejudice the independence and objectivity of the External Auditors. For FY2012, the total remuneration in respect of the review and audit services by the External Auditor amounted to SGD155,000. No non-audit services were provided by the External Auditors during the year.

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 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.

The AC would annually review the adequacy and effectiveness of the internal audit function of the Company.

(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 "EGM"). 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 2012.

(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	7,490	36,095	5,310	25,586
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	1,600	7,710	–	–
For working capital purposes	1,510	7,276	1,510	7,276	–	–
Total net IPO proceeds	17,710	85,341	11,708	56,421	6,002	28,920

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.

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	Chief Executive Officer	Board Member and Member of Nominating Committee	19 December 2007	NIL	NIL
Dr. In Nany Sing Charlie	Masters of Business Administration	Non-Executive Chairman and Independent Director	Board Member, Chairman of NC, Member of AC and RC	30 October 2012	• China Titanium Ltd • Sino-Excel Energy Limited • SINOX Energy Limited • Swift China Limited • Pixtel Holdings Limited • Pixtel Group Ltd	• Sin-Environment Tech Group Ltd.
Mr. Chan Kum Ee	Master of Science in Industrial Management	Independent Director	Board Member, Chairman of RC and Member of AC and NC	31 October 2012	• Sino-Excel Energy Limited • Imagine Un Limited	NIL
Ms. Lim Chai Har	Master of Business Administration	Independent Director	Board Member, Chairman of AC, Member of NC and RC	31 October 2012	• Sino-Excel Energy Pte. LTd. • SINOX Energy Limited	NIL
Mr. Su Chi-ho	Secondary School Education	Non-Executive Director	Board Member, Member of AC and RC	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 2012.

Names of directors

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

Lin Daoqin (林道钦) - Executive Director and Chief Executive Officer
In Nany Sing Charlie - Non-Executive Chairman and Independent Director (Appointed on 30 October 2012)
Su Chi-ho (苏吉河) - Non-Executive Director
Chan Kum Ee - Independent Director (Appointed on 30 October 2012)
Lim Chai Har - Independent Director (Appointed on 30 October 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						
The Company	Number of shares of US$0.05 each					
	As at 1.1.2012	**As at 31.12.2012**	**As at 21.01.2013**	As at 1.1.2012	**As at 31.12.2012**	**As at 21.01.2013**
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)(3)	14,400,000	**14,400,000**	**14,400,000**	258,809,913	**258,809,913**	**258,809,913**
Su Chi-ho (2)(3)	–	**–**	**–**	244,409,913	**244,409,913**	**244,409,913**
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 (3)	1,000	**1,000**	**1,000**	–	**–**	**–**
Lin Xiujin (3)	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 (see Note (2) below) and the shares held by each other. Mr Lin Daoqin and Mdm Lin Xiujin are spouses.

(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 Limited ("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 Su Chi-ho had transferred the 1,000 share of Qian Feng Group to Mdm Lin Xiujin on 5 March 2013.

Directors' benefits

Except as disclosed in Note 20 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, 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 CEO, Mr Lin Daoqin, Executive Directors, 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 Companies Act of British Virgin Islands and the 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.

Call option under chief financial officer ("CFO") service agreement

Under Mr Lau Tze Cheung, Stanley's service agreement, he 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. The CFO options had expired after the termination of his appointment on 31 August 2012.

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.

Directors' Report

Audit committee

The audit committee at the end of the financial year comprises the following members:

Lim Chai Har - Chairman
In Nany Sing Charlie
Su Chi-ho
Chan Kum Ee

The audit committee performs its functions set out in the SGX Listing Manual and the Code of Corporate Governance. In performing those functions, the committee 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 committee 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 audit committee also recommends the appointment of the external auditor and reviews the level of audit and non-audit fees.

The Committee 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 Directors

LIN DAOQIN

SU CHI-HO

Dated: 3 April 2013

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 2012 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 Directors

LIN DAOQIN

SU CHI-HO

Dated: 3 April 2013

Independent Auditor's Report

To The Members of Asia Fashion Holdings Limited

Report on the Financial Statements

We have audited the accompanying financial statements of Asia Fashion Holdings 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 2012, the statement of comprehensive income, statement of changes in equity and statement of cash flows of the Group for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out on pages 29 to 64 to the financial statement.

<u>Management's Responsibility for the Financial Statements</u>

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 account and balance sheets and to maintain accountability of assets.

<u>Auditor's Responsibility</u>

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.

<u>Opinion</u>

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 2012 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, 3 April 2013

Statements of
Financial Position

As at 31 December 2012

		The Company		The Group	
		31 December 2012	31 December 2011	**31 December 2012**	31 December 2011
	Notes	**RMB'000**	RMB'000	**RMB'000**	RMB'000
ASSETS					
Non-Current Assets					
Intangible asset	4	**–**	–	**–**	–
Property, plant and equipment	5	**–**	–	**55,018**	83,225
Land use rights	6	**–**	–	**8,013**	8,194
Subsidiaries	7	**214,063**	214,293	**–**	–
		214,063	214,293	**63,031**	91,419
Current Assets					
Inventories	8	**–**	–	**15,874**	20,592
Trade receivables	9	**–**	–	**50,234**	128,059
Prepayments and other receivables	10	**–**	–	**3,101**	7,375
Cash and cash equivalents	11	**36**	23	**379,243**	346,663
		36	23	**448,452**	502,689
Total assets		**214,099**	214,316	**511,483**	594,108
EQUITY					
Share capital	12	**192,203**	192,203	**192,203**	192,203
Reserves	13	**13,236**	15,719	**229,239**	324,887
Total equity		**205,439**	207,922	**421,442**	517,090
Current Liabilities					
Trade payables	14	**–**	–	**18,420**	39,542
Accruals and other payables	15	**8,660**	6,394	**33,856**	8,976
Bank loans	16	**–**	–	**35,387**	23,000
Current tax payable		**–**	–	**–**	5,500
		8,660	6,394	**87,663**	77,018
Non-Current Liabilities					
Bank loans		**–**	–	**2,378**	–
		–	–	**2,378**	–
Total equity and liabilities		**214,099**	214,316	**511,483**	594,108

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 financial year ended 31 December 2012

	Notes	The Group 2012 RMB'000	The Group 2011 RMB'000
Revenue	3	**173,944**	408,133
Cost of sales		**(181,277)**	(282,772)
Gross results		**(7,333)**	125,361
Other operating income	3	**2,486**	2,072
Selling and distribution expenses		**(6,005)**	(8,803)
Administrative expenses		**(32,464)**	(35,115)
Other operating expenses	19	**(49,696)**	–
Finance costs	17	**(2,500)**	(2,698)
(Loss)/profit before taxation	18	**(95,512)**	80,817
Income tax expense	21	**(136)**	(23,784)
(Loss)/profit after taxation		**(95,648)**	57,033
Other comprehensive income, net of tax		**–**	–
Total comprehensive (loss)/income attributable toowners of the Company		**(95,648)**	57,033
(Loss)/earnings per share		**fen**	fen
- Basic	22	**(17.43)**	10.51
- Diluted	22	**(17.43)**	10.44

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 financial year ended 31 December 2012

The Group	**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 2011	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 new 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**
Total comprehensive loss for the year	**–**	**–**	**–**	**–**	**–**	**–**	**(95,648)**	**(95,648)**
Balance at 31 December 2012	**192,203**	**65,466**	**4,230**	**(64,889)**	**45,303**	**1,224**	**177,905**	**421,442**

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 financial year ended 31 December 2012

		The Group	
		2012	2011
	Note	**RMB'000**	RMB'000
Cash flows from operating activities			
(Loss)/profit before taxation		**(95,512)**	80,817
Adjustments for:			
Amortisation of intangible assets	4	**–**	350
Impairment loss on property, plant and equipment	5	**22,500**	–
Depreciation of property, plant and equipment	5	**11,683**	11,749
Amortisation of land use rights	6	**181**	159
Impairment loss on intangible assets	4	**–**	1,681
Loss on disposal of property, plant and equipment		**158**	126
Inventory written down to net realisable value	4	**11,673**	–
Provision for compensation to distributors	4	**21,850**	–
Provision for minimum guaranteed royalty	4	**5,346**	–
Interest income		**(1,904)**	(1,810)
Interest expense		**2,500**	2,698
Operating (loss)/profit before working capital changes		**(21,525)**	95,770
Changes in inventories		**(6,955)**	(6,603)
Changes in trade receivables		**77,825**	(65,998)
Changes in prepayments and other receivables		**4,274**	(5,427)
Changes in trade payables		**(21,122)**	1,707
Changes in accrued liabilities and other payables		**(2,316)**	(4,311)
Cash generated from operations		**30,181**	15,138
Interest received		**1,904**	1,810
Interest paid		**(2,500)**	(2,698)
Income tax paid		**(5,636)**	(26,038)
Net cash generated from/(used in) operating activities		**23,949**	(11,788)
Cash flows from investing activities			
Acquisition of intangible assets	4	**–**	(1,310)
Acquisition of property, plant and equipment	5	**(6,232)**	(2,411)
Acquisition of land use rights	6	**–**	(3,525)
Proceeds from disposal of property, plant and equipment		**98**	50
Net cash used in investing activities		**(6,134)**	(7,196)
Cash flows from financing activities			
Proceeds from bank loans		**37,765**	35,000
Repayment of bank loans		**(23,000)**	(34,000)
Proceeds from issue of shares		**–**	20,486
Net cash generated from financing activities		**14,765**	21,486
Net increase in cash and cash equivalents		**32,580**	2,502
Cash and cash equivalents at beginning of year		**346,663**	344,161
Cash and cash equivalents at end of year	11	**379,243**	346,663

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

1 General information

The financial statements of Asia Fashion Holdings Limited (the “Company”) and its subsidiaries (the “Group”) for the year ended 31 December 2012 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 (“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 (“PRC”).

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 except as disclosed in the accounting policies set out below.

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.

<u>Classification of land use rights (Note 6)</u>

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 this right. Management judges that the substance of these arrangements is purchase of an intangible asset.

<u>Depreciation of property, plant and equipment (Note 5)</u>

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% (2011 - 5%) difference in the expected useful lives of these assets from management’s estimates would result is approximately 1% (2011 - 1%) variance in the Group’s loss for the financial year.

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

Impairment of non-financial assets (Notes 4, 5 and 6)

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.

Impairment of subsidiaries (Note 7)

Where a subsidiary is in net equity deficit and has suffered losses a test is made whether the investment in the investee has suffered any impairment, in accordance with the stated accounting policy. This determination requires significant judgement. An estimate is made of the future profitability of the investee, and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, and operational and financing cash flow. The amount of the relevant investment is RMB 214,063,000 at the end of the reporting year. It is impracticable to disclose the extent of the possible effects. It is reasonably possible, based on existing knowledge, that outcomes within the next reporting year that are different from assumptions could require a material adjustment to the carrying amount of the asset or liability affected.

Carrying value of inventories (Note 8)

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.

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

Allowance for bad and doubtful debts (Note 9)

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.

Provisions (Note 4)

The Group has recognised provision for minimum guaranteed royalty payments and provision for compensation to distributors based on the maximum amounts payable under the terms of the respective agreements. No provision for litigation has been made as the Group aims to work closely with the agent of Goodyear and the distributors to negotiate a settlement. Actual amounts of settlement could differ from the amounts recognised in the financial statements.

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 2012 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.

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

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 2012

Adoption of new or revised FRS

On 1 January 2012, 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 12	Deferred Tax - Recovery of Underlying Assets
FRS 107	Disclosures - Transfers of Financial Assets

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:

Reference	Description	Effective date (Annual periods beginning on or after)
Amendments to FRS 1	Presentation of Items of Other Comprehensive Income	1 July 2012
Amendments to FRS 19	Employee Benefits	1 January 2013
Revised FRS 27	Separate Financial Statements	1 January 2014
Revised FRS 28	Investments in Associates and Joint Ventures	1 January 2014
FRS 110	Consolidated Financial Statements	1 January 2014
FRS 111	Joint Arrangements	1 January 2014
FRS 112	Disclosure of Interests in Other Entities	1 January 2014
FRS 113	Fair Value Measurement	1 January 2013
Amendments to FRS 32	Offsetting Financial Assets and Financial Liabilities	1 January 2014
Amendments to FRS 107	Disclosures - Offsetting Financial Assets and Financial Liabilities	1 January 2013
Improvements to FRSs 2012		

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 Company.

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 pre-existing relationships. Such amounts are generally recognised in profit or loss.

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.

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

Consolidation (Cont'd)

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.

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.

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

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.

All financial assets are recognised on their trade date - the date on which the Company and the Group commit 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.

<u>Loans and receivables</u>

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.

<u>Cash and cash equivalents</u>

Cash and cash equivalents comprise cash and bank balances.

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

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.

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 and development

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.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalised includes the cost of materials, direct labour, overhead costs that are directly attributable to preparing the asset for its intended use, and capitalised borrowing costs. Other development expenditure is recognised in profit or loss as incurred.

Capitalised development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses.

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.

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

Financial liabilities (Cont'd)

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.

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.

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

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.

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

<u>Short-term employee benefits</u>

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.

<u>Defined contribution plans</u>

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.

<u>Employee leave entitlements</u>

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.

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

Employee benefits (Cont'd)

Employee share option

The Company has issued an option to the former 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 Company's and 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.

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. 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.

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

Revenue recognition

Sales of goods

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 usually occurs when the goods are received at the customer's warehouse.

Interest income

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, adjusted for own shares held. 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.

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..

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

Foreign currency (Cont'd)

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

A related party is defined as follows:

(a) A person or a close member of that person's family is related to the Group and the Company if that person:

  (i) has control or joint control over the Company;

  (ii) has significant influence over the Company; or

  (iii) is a member of the key management personnel of the Group or Company or of a parent of the Company.

(b) An entity is related to the Group and the Company if any of the following conditions applies:

  (i) the entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

  (ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

  (iii) both entities are joint ventures of the same third party.

  (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity.

  (v) the entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company. If the Company is itself such a plan, the sponsoring employers are also related to the Company;

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

Related parties (Cont'd)

(b) An entity is related to the Group and the Company if any of the following conditions applies: (Cont'd)

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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	**2012 RMB'000**	2011 RMB'000
Revenue		
Sale of dyed fabrics	**167,962**	408,133
Sale of garments (Note 4)	**5,982**	–
	173,944	408,133
Other operating income		
Sale of scrap materials	**218**	212
Interest income	**1,904**	1,810
Foreign exchange gain	**364**	1
Government grants	**–**	49
	2,486	2,072

4 Intangible asset

The Group and The Company	RMB'000
Cost	
At 1 January 2011	–
Additions	**2,031**
At 31 December 2011 and 31 December 2012	**2,031**
Accumulated amortisation and impairment	
At 1 January 2011	–
Amortisation charge	350
Impairment loss #	1,681
At 31 December 2011 and 2012	**2,031**
Net book value	
At 31 December 2012	**–**
At 31 December 2011	–

In March 2011, the Company entered into a Trademark Licence Agreement (the "Agreement") with The Goodyear Tire & Rubber Company ("Goodyear" or the "Licensor") 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. 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.

Upon the termination of the Agreement with Goodyear on 4 February 2013, the Company's option under the agreement is either to destroy all remaining inventory of Goodyear Products and related materials or deliver all remaining Goodyear Products to the Licensor at no cost for the Goodyear Products. In assessing the estimated net realisable value of the Goodyear Products inventories, the management expects nil estimated net realisable value as at 31 December 2012.

Inventories relating to Goodyear Products written off approximately RMB11,673,000 (2011 - Nil) have been included in cost of inventories sold (Note 8).

4 Intangible asset (Cont'd)

Provision for minimum guaranteed royalty

Following the termination of the Agreement with Goodyear on 4 February 2013, a provision of RMB5.346 million (2011: Nil) was made in respect of the minimum guaranteed royalty fees payable by the Group under the Agreement for the year ended 31 December 2012.

Provision for compensation to distributors

As at 31 December 2012, the Group made a provision of RMB21.85 million being the maximum amount of compensation payments under the terms of the distributorship agreement entered into with certain distributors for the retailing of the Goodyear Products following the termination of the trademark agreement with Goodyear.

The Group aims to work closely with the agent of Goodyear and the distributors to negotiate a settlement of the amounts payable under the respective agreements. The actual amounts of settlement could differ from the amounts recognised in the financial statements.

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 2011	–	60,411	77,406	1,723	1,225	140,765
Additions	–	301	1,828	235	47	2,411
Transfers	–	–	(421)	(199)	–	(620)
At 31 December 2011	**–**	**60,712**	**78,813**	**1,759**	**1,272**	**142,556**
Additions	**4,727**	**–**	**1,496**	**–**	**9**	**6,232**
Disposals	**–**	**–**	**(999)**	**–**	**–**	**(999)**
At 31 December 2012	**4,727**	**60,712**	**79,310**	**1,759**	**1,281**	**147,789**
Accumulated depreciation and impairment losses						
At 1 January 2011	–	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**
Depreciation for the year	**–**	**3,076**	**8,169**	**292**	**146**	**11,683**
Disposals	**–**	**–**	**(743)**	**–**	**–**	**(743)**
Impairment loss	**–**	**17,000**	**5,500**	**–**	**–**	**22,500**
At 31 December 2012	**–**	**34,494**	**55,889**	**1,289**	**1,099**	**92,771**
Net book value						
At 31 December 2012	**4,727**	**26,218**	**23,421**	**470**	**182**	**55,018**
At 31 December 2011	–	46,294	35,850	762	319	83,225

5 Property, plant and equipment (Cont'd)

The Group	2012 RMB'000	2011 RMB'000
Depreciation is charged to:		
Administrative expenses	**1,788**	1,815
Cost of sales	**9,895**	9,934
	11,683	11,749

All of the Group's property, plant and equipment are located in the PRC. The items under construction in progress relate to certain newly acquired plant and machinery of RMB 4,727,000 (2011: Nil) that are currently undergoing installation and commissioning at year end and is not available for use.

Certain of the Group's property, plant and equipment with a total net book value of approximately RMB40,417,000 (2011 - RMB47,732,000) are pledged as security for the bank loans (Note 16).

Due to losses reported in the Group's results, the Group has recognised impairment losses of RMB17,000,000 (2011: Nil) and RMB 5,500,000 (2011: Nil) to write down the carrying amounts of buildings and plant and machinery assets respectively relating to the loss making fabric business. The carrying amount of the assets was reduced to their recoverable amount which was derived in accordance with the stated policy on impairment of non-financial assets; the fair value less costs to sell was used to ascertain the recoverable amount.

6 Land use rights

The Group	RMB'000
Cost	
At 1 January 2011	5,567
Additions	3,525
At 31 December 2011	**9,092**
Additions	**–**
At 31 December 2012	**9,092**
Accumulated amortisation and impairment losses	
At 1 January 2011	739
Amortisation charge	159
At 31 December 2011	**898**
Amortisation charge	**181**
At 31 December 2012	**1,079**
Net book value	
At 31 December 2012	**8,013**
At 31 December 2011	8,194

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).

As at 31 December 2012, the Group is still in the process of obtaining land certificate from authority for one of the parcels of land with a carrying amount of RMB3,402,000 (2011: 3,472,125). Management has assessed land use rights for impairment and based on the fair value less costs to sell assessment, no impairment was considered necessary as at the reporting year end date.

7 Subsidiaries

The Company	2012 RMB'000	2011 RMB'000
Unquoted equity investments, at cost	**62,339**	62,339
Loans to subsidiaries	**151,724**	151,954
	214,063	214,293

Details of the subsidiaries are as follows:

Name of company	Country of incorporation	Percentage of equity held 2012	2011	Principal activities
Directly held:		**%**	%	
Qianfeng International Limited (formerly known as Asia Fashion Limited) ("Qianfeng Int'l") 乾丰国际有限公司	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
Fujian Qianfeng Textile Technology Co. Ltd. (formerly known as Fuzhou Jimei Dyeing and Weaving Co. Ltd.) ("Fujian Qianfeng") 福建乾丰纺织科技有限公司	The People's Republic of China	**100**	100	Manufacture and sale of fabrics

All subsidiaries are audited by Foo Kon Tan Grant Thornton LLP for consolidation purposes. The company's wholly-owned subsidiary, Asia Fashion Limited, has changed its name to Qianfeng International Limited "乾丰国际有限公司" with effect from 5 July 2012.

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

Having regard to the financial performance of certain subsidiaries that have been loss-making during the current financial year, management has performed an assessment for impairment in accordance with the stated policy on impairment of non-financial assets and considered no impairment is necessary.

8 Inventories, at cost

The Group	2012 RMB'000	2011 RMB'000
Raw materials	**6,932**	11,060
Work-in-progress	**6,123**	5,154
Finished goods	**2,819**	4,378
	15,874	20,592
Cost of inventories included in cost of sales	**180,964**	302,656
- Including inventories written down to net realisable value (Note 4)	**11,673**	–

9 Trade receivables

The Group	2012 RMB'000	2011 RMB'000
Trade receivables from non-related parties	**50,234**	128,059

Trade receivables are denominated in the followings currencies:

The Group	2012 RMB'000	2011 RMB'000
Renminbi	**48,400**	125,644
Hong Kong Dollar	**832**	652
United States Dollar	**1,002**	1,763
	50,234	128,059

10 Prepayments and other receivables

The Group	2012 RMB'000	2011 RMB'000
Prepayments	**2,726**	7,293
Other receivables	**375**	82
	3,101	7,375

Prepayments include deposits of RMB 1,805,167 (2011: Nil) for the purchase of a commercial property. (Refer to Note 24)

11 Cash and cash equivalents

	The Company		The Group	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
Cash on hand	**–**	–	**75**	772
Cash at bank	**36**	23	**379,168**	345,891
	36	23	**379,243**	346,663

Cash and cash equivalents are denominated in the following currencies:

	The Company		The Group	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
Renminbi	**–**	–	**379,046**	345,738
Hong Kong Dollar	**–**	–	**154**	103
Singapore Dollar	**36**	23	**36**	23
United States Dollar	**–**	–	**7**	799
	36	23	**379,243**	346,663

At the reporting date, interest bearing bank balances amounting to RMB379,168,000 (2011 - RMB345,868,000) have a weighted average effective interest rate of 0.48% (2011 - 0.35%) per annum.

12 Share capital

	No. of ordinary shares		Share capital	
	2012	2011	**2012**	2011
The Company	**'000**	'000	**US$'000**	US$'000
Authorised:				
At beginning and end of year	**800,000**	800,000	**40,000**	40,000
Issued and fully paid with par value of US$0.05 per share:				
At beginning of year	**548,802**	490,002	**#27,440**	24,500
New shares issued pursuant to subscription agreement	**–**	58,800	**–**	2,940
At end of year	**548,802**	548,802	**27,440**	#27,440
# Issued and fully paid at end of year equivalent to (RMB'000)			**192,203**	192,203

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. The share premium account may be applied by the company in paying up unissued shares of the company to be issued to members of the company as fully paid bonus shares, in writing off the preliminary expenses of the company, or the expenses of the commission paid or discount allowed on, any issue of shares or debentures of the company or in providing for the premiums payable on redemption of any shares or of any debentures of the company.

(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 regulation 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 authority, and are not available for dividend distribution to the shareholders.

13 Reserves (Cont'd)

(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 (2011 - 45 to 60 days).

15 Accruals and other payables

		The Company		The Group	
		31 December 2012	31 December 2011	**31 December 2012**	31 December 2011
	Note	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Accrued operating expenses		**1,709**	2,701	**5,968**	8,255
Non-trade amount due to a subsidiary		**6,951**	2,972	**–**	–
Accrued licence fees	4	**–**	721	**–**	721
Provision for compensation to distributors	4	**–**	–	**21,850**	–
Provision for minimum guaranteed royalty	4	**–**	–	**6,038**	–
		8,660	6,394	**33,856**	8,976

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

Accruals and other payables are denominated in the following currencies:

	The Company		The Group	
	31 December 2012	31 December 2011	**31 December 2012**	31 December 2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Renminbi	8,660	5,673	27,806	8,244
Hong Kong Dollar	–	–	12	11
United States Dollar	–	721	6,038	721
	8,660	6,394	33,856	8,976

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 7.37% (2011 - 6.77%) per annum.

17 Finance costs

The Group	2012 RMB'000	2011 RMB'000
Interest on bank loans	2,500	2,698

18 (Loss)/profit before taxation

The following items have been included in arriving at (loss)/profit before taxation:

The Group	Note	2012 RMB'000	2011 RMB'000
Amortisation of intangible assets	4	–	350
Depreciation of property, plant and equipment	5	11,683	11,749
Amortisation of land use rights	6	181	159
Loss on disposal of property, plant and equipment		158	126
Cost of inventories included in cost of sales		180,964	302,656
Product prototype costs		6,549	7,105
Research and development expenses		1,906	4,057
Staff costs	20	25,858	24,762

19 Other operating expenses

The Group	Note	2012 RMB'000	2011 RMB'000
Provision for compensation to distributors	4	21,850	–
Provision for minimum guaranteed royalty	4	5,346	–
Impairment of property, plant and equipment	5	22,500	–
		49,696	–

20 Staff costs

The Group	2012 RMB'000	2011 RMB'000
Key management personnel		
- Directors		
- salaries and related costs	1,987	2,505
- Executive officers		
- salaries and related costs	1,201	1,621
Other than key management personnel		
- salaries and related costs	20,882	19,349
- employer's contributions to defined contribution plans	1,788	1,287
Total staff costs	25,858	24,762

21 Income tax expense

The Group	2012 RMB'000	2011 RMB'000
Current tax expense	**136**	23,784

Reconciliation of effective tax rate

The Group	2012 RMB'000	2011 RMB'000
(Loss)/profit before taxation	**(95,512)**	80,817
Tax calculated at tax rate of 25% (2011 - 25%)	**(23,878)**	20,204
Tax exempt income	**–**	(864)
Effect of tax rates in foreign jurisdictions	**531**	2,644
Effect of preferential tax rates	**326**	(808)
Tax effect on non-deductible expenses	**1,944**	303
Deferred tax asset on losses not recognised	**21,213**	2,305
	136	23,784

The Company, incorporated in the Bermuda, is exempt from income tax.

Qianfeng International Limited (formerly known as Asia Fashion Limited), incorporated in Hong Kong, is subject to tax rate of 16.5% (2011 - 16.5%). It has no taxable income for the years ended 31 December 2012 and 2011.

The Group's operating subsidiaries, Fujian Qianfeng Textile Technology Co. Ltd. ("Fujian Qianfeng") and Fujian Jiamei Textile Co., Ltd ("Fujian Jiamei") are located the PRC. Fujian Qianfeng and Fujian Jiamei are subject to a preferential rate of 24% and 12%, respectively.

The Group has not recognised a deferred tax asset in respect of tax losses of RMB24.521 million (2011: Nil) because it is not probable that future profits would be available to utilise the losses. All tax losses will expire after five years from the year of assessment they relate to.

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 2012 and 2011.

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 2012 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.

22 Earnings per share

The Group	2012 RMB'000	2011 RMB'000
Net (loss)/profit attributable to equity holders of the Company (RMB'000) (A)	**(95,648)**	57,033
	Number of Shares	
Weighted average number of ordinary shares in issue for basic earnings per share (B)	**548,802,638**	542,604,694
Effect of dilutive potential ordinary shares - share option	**–**	3,675,016
Weighted average number of ordinary shares for diluted earnings per share (C)	**548,802,638**	546,279,710
Basic (loss)/earnings per share (fen) (A)/(B)	**(17.43)**	10.51
Diluted (loss)/earnings per share (fen) (A)/ (C)	**(17.43)**	10.44

23 Employee benefits

The Company and The Group

Employee share option

In 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 2011 and 26 August 2013 subject to satisfaction of certain conditions.

Outstanding option at the reporting date is as follows:

The Group	2012 Option	2011 Option
Outstanding at 1 January and 31 December	**–**	3,675,016
Exercisable at 31 December	**–**	3,675,016

The CFO options had been expired after termination of appointment on 31 August 2012.

No options were exercised during the financial years ended 31 December 2011 and 2012.

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

The Group	2011
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. The expected volatility is measured by the standard deviation of up to 17 months closing share price of the 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 the award.

24 Capital commitments

The Group	2012 RMB'000	2011 RMB'000
Capital expenditure contracted but not provided for in the financial statements		
- purchase of commercial property in the PRC	**4,212**	–

The Group entered into an agreement with a third party to purchase one unit of commercial property for a consideration of RMB 6,017,222. Deposit of RMB 1,805,167 (2011: Nil) was paid during the year (note 10). The commercial property is under construction as of the date of the financial statements.

25 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.

Group financing and 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.

25 Operating segments (Cont'd)

	Manufacturing		Licenced store		Corporate		Total	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011
The Group	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Revenue								
External sales	**167,962**	408,133	**5,982**	–	**–**	–	**173,944**	408,133
Results								
Segment results	**(52,969)**	101,825	**(39,441)**	(13,925)	**(3,088)**	(6,457)	**(95,498)**	81,443
Interest income	**1,904**	1,810	**–**	–	**–**	–	**1,904**	1,810
Other income	**218**	262	**364**	–	**–**	–	**582**	262
Finance costs	**(2,500)**	(2,698)	**–**	–	**–**	–	**(2,500)**	(2,698)
Income tax expense	**(136)**	(23,784)	**–**	–	**–**	–	**(136)**	(23,784)
	(53,483)	77,415	**(39,077)**	(13,925)	**(3,088)**	(6,457)	**(95,648)**	57,033
Other information								
Segment assets	**511,447**	592,329	**–**	–	**36**	1,779	**511,483**	594,018
Total assets							**511,483**	594,018
Segment liabilities	**22,679**	44,380	**27,888**	–	**1,709**	4,138	**52,276**	48,518
Total liabilities							**90,041**	77,018
Capital expenditure	**6,232**	5,936	**–**	2,031	**–**	–	**6,232**	7,967
Depreciation of property, plant and equipment	**11,683**	11,749	**–**	–	**–**	–	**11,683**	11,749
Amortization	**181**	159	**–**	350	**–**	–	**181**	509
Inventory written off	**–**	–	**11,673**	–	**–**	–	**11,673**	–
Impairment loss on property, plant and equipment	**22,500**	–	**–**	–	**–**	–	**22,500**	–
Impairment loss on intangible asset	**–**	1,681	**–**	1,681	**–**	–	**–**	1,681
Provision for compensation to distributors	**–**	–	**21,850**	–	**–**	–	**21,850**	–
Provision for minimum guaranteed royalty	**–**	–	**5,346**	–	**–**	–	**5,346**	–
Loss on disposal of property, plant and equipment	**158**	126	**–**	–	**–**	–	**158**	126

25 Operating segments (Cont'd)

Business segments (Cont'd)

Reconciliation of reportable segments' liabilities to total liabilities:

The Group	2012 RMB'000	2011 RMB'000
Segment liabilities	52,276	48,518
Borrowings	37,765	23,000
Income tax payable	–	5,500
	90,041	77,018

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 sales of Goodyear Products and the related capital expenditure are attributable to a single geographical region, which is the PRC, including Hong Kong, a Special Administration Region.

26 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.

<u>Bank balances</u>

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

26 Financial risk management objectives and policies (Cont'd)

(i) Credit risk (Cont'd)

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 2012.

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 (2011 - 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 past due and other receivables.

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

The Group	**2012** **RMB'000**	2011 RMB'000
Not past due	**50,234**	85,775
Past due less than 30 days	**–**	36,864
Past due 31-120 days	**–**	5,420
	50,234	128,059

(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.

26 Financial risk management objectives and policies (Cont'd)

(ii) Liquidity risk (Cont'd)

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 2012					
Trade payables	**18,420**	**18,420**	**18,420**	**–**	**–**
Accruals and other payables	**33,856**	**33,856**	**33,856**	**–**	**–**
Bank loans	**37,765**	**37,765**	**35,387**	**2,378**	**–**
	90,041	**90,041**	**87,663**	**2,378**	**–**
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	–	–
The Company					
At 31 December 2012					
Accruals and other payables	**8,660**	**8,660**	**8,660**	**–**	**–**
	8,660	**8,660**	**8,660**	**–**	**–**
At 31 December 2011					
Accruals and other payables	6,394	6,394	6,394	–	–
	6,394	6,394	6,394	–	–

26 Financial risk management objectives and policies (Cont'd)

(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 RMB379,168,000 (2011 - RMB345,868,000) and RMB34,594,000 (2011 – RMB23,000,000), 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.

Cash flow sensitivity analysis for variable rate instruments

A 50 (2011 - 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 (loss)/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.

	(Loss)/profit before tax		Equity	
The Group	**50 bp increase RMB'000**	**50 bp decrease RMB'000**	**50 bp increase RMB'000**	**50 bp decrease RMB'000**
31 December 2012				
Variable rate bank balances	**1,896**	**(1,896)**	**1,896**	**(1,896)**
Variable rate bank loan	**(173)**	**173**	**(173)**	**173**
	1,723	**(1,723)**	**1,723**	**(1,723)**
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)

(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.

26 Financial risk management objectives and policies (Cont'd)

(iv) Foreign currency risk (Cont'd)

Sensitivity analysis for foreign currency risk

A 5% strengthening/weakening of the Singapore dollar (SGD), Hong Kong dollar (HKD) and United States dollar (USD) against the respective functional currencies of the group entities at 31 December would have increased (decreased) equity and (loss)/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 foreign currency rates, remain constant.

	The Group		The Company	
	(Loss)/profit before tax Increase/ (decrease) RMB'000	Equity Increase/ (decrease) RMB'000	(Loss)/profit before tax Increase/ (decrease) RMB'000	Equity Increase/ (decrease) RMB'000
31 December 2012				
SGD against RMB				
- Strengthened	**2**	**2**	**2**	**2**
- weakened	**(2)**	**(2)**	**(2)**	**(2)**
HKD against RMB				
- Strengthened	**49**	**49**	**–**	**–**
- weakened	**(49)**	**(49)**	**–**	**–**
USD against RMB				
- Strengthened	**(251)**	**(251)**	**–**	**–**
- weakened	**251**	**251**	**–**	**–**
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

(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.

26 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 of the 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 without incurring excessive costs.

The fair values of loans to subsidiaries that in substance form part of net investments in the subsidiaries with indeterminable repayments are deemed to be zero.

(vii) Classification of financial assets and liabilities

The following table summarises the carrying amount of financial assets and liabilities recorded at the end of the reporting year by FRS 39 categories:

	The Company		The Group	
	31 December 2012	31 December 2011	31 December 2012	31 December 2011
	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets:				
Cash and cash equivalents	36	23	379,243	346,663
Trade receivables	–	–	50,234	128,059
Other receivables	–	–	375	82
	36	23	429,852	474,804
Financial liabilities:				
Trade payables	–	–	18,420	39,542
Accruals and other payables	8,660	6,394	33,856	8,976
Bank loans	–	–	37,765	23,000
	8,660	6,394	90,041	71,518

27 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.

27 Capital management (Cont'd)

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	**2012** **RMB'000**	2011 RMB'000
Total borrowings	**37,765**	23,000
Less: Cash and cash equivalents	**(379,243)**	(346,663)
Net debt/ (cash)	**(341,478)**	(323,663)
Total equity	**421,442**	517,090
Less: Statutory reserve	**(45,303)**	(45,303)
Adjusted capital	**376,139**	471,787
Net debt-to-adjusted-capital ratio	**NA#**	NA#

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

28 Subsequent events

(a) On 4 February 2013, the agreement between the Company and Goodyear was terminated. Upon the termination of the Agreement with Goodyear, the Company has written down the carrying value of inventories relating to Goodyear Products of approximately RMB11.673 million due to the restricted sell-off clauses in the Agreement (note 4).

Consequent to the termination of the Agreement, the Company has recognised provision of RMB5.346 million in respect of minimum guaranteed royalty payable to Goodyear under the contract terms of the Agreement (note 4).

In addition, the Company has made a provision of RMB21.85 million being the maximum amount of compensation payments under the terms of the distributorship agreement entered into with certain distributors for the retailing of the Goodyear Products (note 4).

(b) The Group has announced that it has entered into a memorandum of understanding to acquire a 51% equity interest in the capital of two coal mining companies based in China on 5 February 2013. The consideration for the proposed acquisition is RMB 1 billion and will be satisfied entirely in cash.

Statistics of **Shareholdings**

As at 22 March 2013

DISTRIBUTION OF SHAREHOLDINGS

SIZE OF SHAREHOLDINGS	NO. OF SHAREHOLDERS	%	NO. OF SHARES	%
1 - 999	0	0.00	0	0.00
1,000 - 10,000	131	38.08	433,077	0.08
10,001 - 1,000,000	196	56.98	29,700,000	5.41
1,000,001 AND ABOVE	17	4.94	518,669,561	94.51
TOTAL	**344**	**100.00**	**548,802,638**	**100.00**

TWENTY LARGEST SHAREHOLDERS

NO.	NAME	NO. OF SHARES	%
1	PHILLIP SECURITIES PTE LTD	324,319,020	59.10
2	DBS VICKERS SECURITIES (S) PTE LTD	77,167,490	14.06
3	HL BANK NOMINEES (S) PTE LTD	35,056,051	6.39
4	OCBC SECURITIES PRIVATE LTD	23,490,000	4.28
5	HONG LEONG FINANCE NOMINEES PTE LTD	12,589,000	2.29
6	LIM BOON GUAN	10,000,000	1.82
7	RAFFLES NOMINEES (PTE) LTD	7,757,000	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	ANG CHIN MENG	2,289,000	0.42
13	LIM PENG LIANG DAVID LLEWELLYN	2,000,000	0.36
14	CHANG YEH HONG	1,953,000	0.36
15	TAN HOO KIA	1,750,000	0.32
16	LIM CHEO TEE	1,592,000	0.29
17	ZHANG LEI	1,234,000	0.22
18	LIM CHYE HUAT @ BOBBY LIM CHYE HUAT	1,000,000	0.18
19	ONG CHIN YAM IAN	1,000,000	0.18
20	LILY THIAN SIEW EIE	980,000	0.18
	TOTAL	**521,649,561**	**95.04**

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 SGX Centre 2 #17-01 4 Shenton Way Singapore 068807 on 26 April 2013 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 2012 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 Byelaws of the Company:

   Bye-law 85(6)

   Dr. In Nany Sing Charlie **(Resolution 2)**
   Ms. Lim Chai Har **(Resolution 3)**
   Mr. Chan Kum Ee **(Resolution 4)**

   Bye-law 86(1)

   Mr. Lin Daoqin **(Resolution 5)**

   [See Explanatory Note (i)]

3. To approve the payment of Directors' fees of S$150,000, for the financial year ending 31 December 2013, to be paid annually in arrears. (2012: 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 ("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 ("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)**

By Order of the Board
Chan Koon Fat
Company Secretary
Singapore, 10 April 2013

Notice of
Annual General Meeting

Explanatory Notes:

(i) Dr. In Nany Sing Charlie will, upon re-election as a Director of the Company, remain as the Chairman of the Nominating Committee, a member of the Audit Committee and Remuneration Committee and will be considered independent.

Ms. Lim Chai Har 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. Chan Kum Ee will, upon re-election as a Director of the Company, remain as the Chairman of the Remuneration Committee, a member of the Audit Committee and Nominating 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.

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.

ASIA FASHION
亚洲时尚