Annual Report 2013

ASIA FASHION
亚洲时尚

Contents

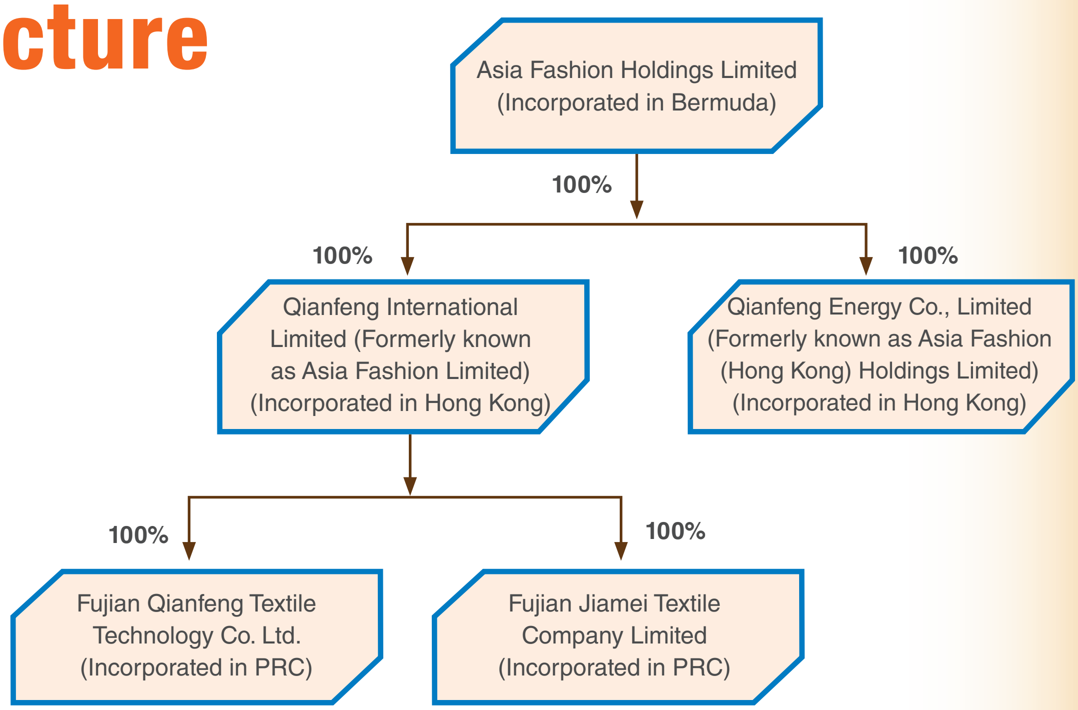
Corporate Profile

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 January 2014, the Group has entered into a sale and purchase agreement between the Company as purchaser and China Construction Material Holdings Limited as vendor in connection with the acquisition of 100% of the share capital of China Construction Material (Hong Kong) Limited. The Proposed Acquisition will enlarge the range of products and services of the Group and also enable it to penetrate the growing construction material industry. Further, the Proposed Acquisition is expected to provide the Group with a relatively more stable income stream compared to the capricious nature of the Group's current fabric business. This 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 2013 and an overview of the Group's strategy going forward.

2013 was a very challenging year for the Group due to the slow recovery of global economic and the industry becoming much more competitive. This has affected the Group's performance especially in the economy of scale of our operations.

Revenue for the Group was RMB155.5 million, 10.6% lower than that achieved in FY2012. 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 RMB421.0 million which included RMB424.6 million of compensation to customers due to delivered products that allegedly failed to meet customers' specified requirements.

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 continue 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.

In view of the deteriorated market situation, the Group will be very prudent in further business development including proceeding cautiously with its downstream business.

The Group had released an announcement on 6 January 2014 that Company has entered into a sale and purchase agreement between the Company as purchaser and China Construction Material Holdings Limited ("CCMH") as vendor on 3 January 2014 in connection with the acquisition (the "Proposed Acquisition") of 100% of the share capital of CCMH.

CCMH is the legal and beneficial owner of 100% of the registered capital of Zhongzhuang (Xuzhou) Construction Material Co., Ltd which in turn holds 100% of the registered capital of Xuzhou Zhongsen Tonghao New Board Co., Ltd ("Xuzhou Zhongsen"), incorporated under the laws of the PRC. The principal activities of Xuzhou Zhongsen are the manufacture and sale of decorative boards, based marerial boards and aluminium products used in the renovation and construction industry.

The Proposed Acquisition will be conditional upon the approval by shareholders of the Company in a general meeting to be convened by the Company.

Please refer to the announcement referred to in the foregoing paragraphs for more details relating to the aforesaid acquisition.

The Company will continue to undertake a strategic review to examine the options regarding the restructuring of its business.

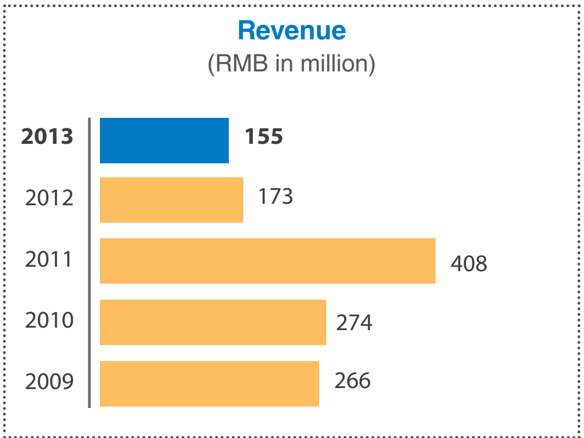
APPRECIATION

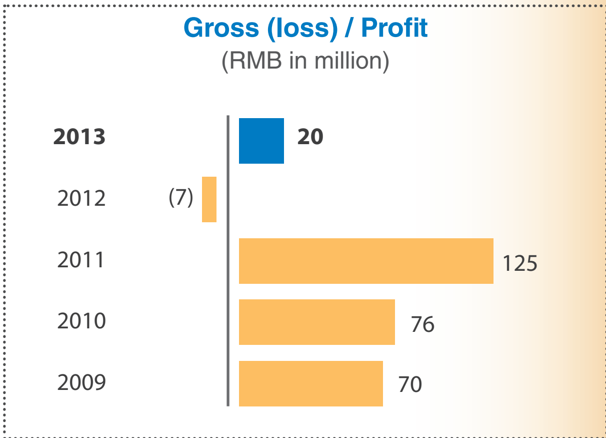
The Board appreciates the continuous support from our shareholders and wishes to express its utmost gratitude to our loyal customers, business partners, suppliers, bankers and employees, and past directors especially to Dr In Nany Sing Charlie, Mr Su Chi-ho, Mr Chan Kum Ee, Ms Lim Chai Har and Mr Ong Kian Guan, for their invaluable contributions to the Group.

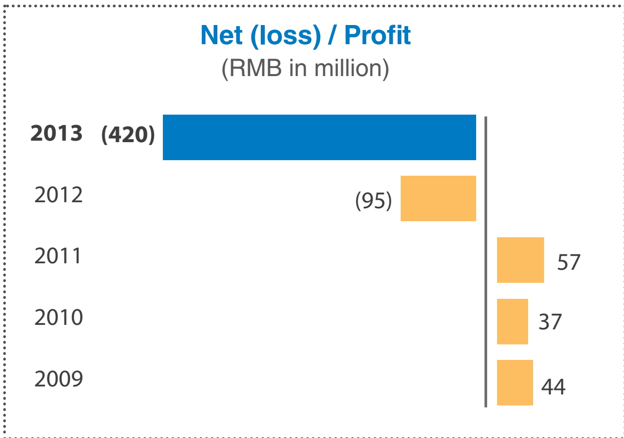
FY2013 will no doubt be challenging for the Group, but we will definitely put in our best effort and hard work to turn the Group around and generate value for our shareholders.

Neo Chee Beng
Executive Chairman

Financial Highlights







	2013 RMB'000	**2012 RMB'000**	2011 RMB'000	2010 RMB'000	2009 RMB'000
Revenue	155,468	173,944	408,133	274,534	266,909
Gross (loss)/profit	20,567	(7,333)	125,361	76,812	70,549
Operating (loss)/profit	(419,731)	(93,012)	83,515	51,478	50,385
(Loss)/profit attributable to Shareholders	(420,959)	(95,648)	57,033	37,702	44,709

Financial & Operations Review

REVENUE

The Group's revenue was RMB155.5 million, a decrease of RMB18.4 million compared to RMB173.9 million in FY2012. 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.

PROFITABILITY

The Group made a net loss of RMB421.0 million which included RMB424.6 million of compensation to customers due to delivered products that allegedly failed to meet customers' specified requirements.

CASH FLOW

The Group will have sufficient cash resources to satisfy its working capital requirements for at least the next financial year.

In addition, the CEO, on 23 April 2014, executed an irrevocable letter of undertaking for discharge of debts governed by PRC law in favour of the Company to provide financial support to the Company of an amount up to RMB1000 million. In connection thereto, the CEO had also on the same date executed a mortgage, governed by PRC law, over four of his properties in Fuzhou which are estimated to be worth above an aggregate of RMB120 million, as security for the irrevocable undertaking.

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

Neo Chee Beng
(Executive Chairman)

Lin Daoqin
(Executive Director and Chief Executive Officer)

Yuan Limin
(Non-Executive Director)

Kwok Wei Woon (Guo Weiwen)
(Independent Director)

Teo Kean Eek
(Independent Director)

AUDIT COMMITTEE

Kwok Wei Woon (Guo Weiwen) (Chairman)
Teo Kean Eek
Yuan Limin

NOMINATING COMMITTEE

Teo Kean Eek (Chairman)
Kwok Wei Woon (Guo Weiwen)
Yuan Limin

REMUNERATION COMMITTEE

Teo Kean Eek (Chairman)
Kwok Wei Woon (Guo Weiwen)
Yuan Limin

SECRETARY

Ng Poh Khoon

ASSISTANT SECRETARY

Codan Services Limited

REGISTERED OFFICE

Codan Services Limited
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

PRINCIPAL BANKER

Shanghai Pudong Development Bank,
Fuquing Branch

AUDITOR

Foo Kon Tan Grant Thornton LLP
Public Accountants and Chartered 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

MR NEO CHEE BENG

Executive Chairman

Mr Neo Chee Beng was appointed as our Independent Director on 31 July 2013 and was re-designated as Executive Chairman on 27 December 2013. He is currently the Chief Financial Officer of Beijing Ruyi Media Group, a leading movie and TV series production company. Prior to that, Mr Neo was the Chief Compliance Officer of Persistent Asset Management Pte Ltd, an asset management company with total assets of USD800 million under management. Mr Neo was an Independent Business Consultant appointed to a number of companies listed on Catalyst and NASDAQ. From 1996 to early 2005, he was with Vertex Management II Pte Ltd, a venture capital firm and was head of its Beijing office. A number of his investments were successfully listed on NASDAQ, New York Stock Exchange and Hong Kong Stock Exchange. Mr Neo was previously the Finance Manager of the Cycle & Carriage Group and had years of working experience with international audit firms, Ernst & Young and Moores Rowland. Mr Neo currently serves as the Independent Director as well as a member of the Nomination Committee, Remuneration Committee and Audit Committee of China Finance Online Ltd, a NASDAQ listed company (NASDAQ: JRJC). Mr Neo is also the Independent Director and Chairman of the Remuneration Committee of Lottvision Limited, a company listed on the main board of the SGX-ST.

Mr Neo is a Fellow of the Association of Chartered Certified Accountants, United Kingdom and a member of Singapore Institute of Directors.

MR LIN DAOQIN

Executive Director and Chief Executive Officer

Mr Lin Daoqin was appointed on 19 December 2007 as our Executive Director and Chief Executive Officer. Mr Lin is the co-founder of our Group and has been spearheading the expansion and growth of the Group. He is instrumental to the Company's growth and development, responsible for the day to day operations, 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 his 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 YUAN LIMIN

Non-Executive Director

Mr Yuan Limin was appointed on 27 December 2013 as our Non-Executive Director and he is a member of the Audit Committee, Nominating Committee and Remuneration Committee. Mr Yuan is currently a senior business analyst with American Etech Securities Inc., He has more than 30 years' experience in the capital, investment and financial analysis and handled more than 15 listing and fund raising projects in China. Prior to that from 1987 to 1998, he was the General Manager of CAD Company of Ministry of Aerospace. From 1982 to 1985, he was an analyst with the Beijing Government's Finance Office.

Mr Yuan graduated with a bachelor degree in finance at the Beijing Institute of Technology.

MR TEO KEAN EEK

Independent Director

Mr Teo Kean Eek was appointed on 27 December 2013 as our Independent Director and he is the Chairman of the Nominating Committee and Remuneration Committee and a member of the Audit Committee. From 2003 till present, Mr Teo is the founder and Managing Director of Agile Partners Pte Ltd, an advisory and investment firm which focuses on the expansion, public listing and M&A activities of Chinese enterprises as well as managing a team of financial traders specialized in various Index Futures in Shanghai since 2010. From 2000 to 2002, he was a Principal at Shanghai NewMargin Ventures, one of the top venture capital firms in China. Prior to Shanghai NewMargin Ventures, Mr Teo was with Strategic Alliance Capital Pte Ltd (Singapore), Household International Inc (USA) and Lattice Semiconductor Inc. (USA), involved in venture capital investment and strategic planning.

Mr Teo was the Independent Director of Pharmesis International Limited, a company listed on Main Board of SGX-ST and Non Executive Director of Bluestar Secutech Inc. and Sinosoft Technology Limited, both listed on AIM, UK.

Mr Teo is a Chartered Financial Analyst (CFA) since 2000. Mr Teo graduated with a Master Degree in Engineering Economics System from Stanford University and a Bachelor Degree in Electrical Engineering from Arizona State University.

MR KWOK WEI WOON (GUO WEIWEN)
Independent Director

Mr Kwok Wei Woon was appointed on 27 March 2014 as our Independent Director and he is the Chairman of the Audit Committee and a member of the Nominating Committee and Remuneration Committee. Mr Kwok is currently the Lead Independent Director and the Chairman of the Audit Committee of ISR Capital Limited. Prior from 2012 to 2014, he was the Sales Director, Standard Life – Local sales. Mr Kwok was the Executive Director at JP Morgan, Private Wealth Management from 2011 to 2012. From 2008 to 2010, he was the Managing Director and Chief Investment Officer at Platinum Management (Asia) Pte Ltd. From 2007 to 2008, Mr Kwok was the Director, Products and Services, Greater China of UBS AG Singapore. He headed the investment services and advisory, wealth management department of Standard Chartered Bank from 2003 to 2007.

Apart from his professional roles, he is active in non-profit organizations and is currently a committee member of the Republic of Singapore Yacht Club, member of the finance sub-committee of the National University of Singapore Society and Vice-President of the University of New South Wales alumni Singapore's chapter. He is also the honorary treasurer and Chair of Investors Education for SIAS from 2011 to 2013.

Mr Kwok graduated with a bachelor degree in Commerce (majoring in accounting and finance) and a master degree in Commerce, majoring in advance finance from the University of New South Wales. He is a Certified Financial Planner and a Certified Accountant with CPA Australia and also a member of Singapore Institute of Directors.

Key Management

MR NG POH KHOON

Chief Financial Officer ("CFO")

Mr Ng Poh Khoon joined the Group as Finance Director on 31 July 2013 and subsequently was re-designated as the Chief Financial Officer on 1 January 2014. He is responsible for the preparation of all our financial statements as well as reviewing and developing effective financial policies and control procedures of the Group. From November 2012 to June 2013, he was the IR Director of Youbisheng Green Paper AG, a Quanzhou based linerboard producer listed on Frankfurt Prime Standard. Prior to that from Jan 2012 to October 2012, he was heading the export division for Passion Group which is based in Longyan City, Fuijan Province, and is involved in design, production and sale of handicrafts, furniture and home furnishings. From November 2008 to December 2011, he was the CFO of Passion Holdings Limited, formerly a listed company quoted on the mainboard of SGX-ST.

From October 2004 to October 2008, Mr Ng was the CFO of the Sinoying Group of Companies, which is primarily engaged in the business of shipping and oil trading. He oversaw the financial, accounting and taxation matters of the group's operations in Singapore, the PRC and Hong Kong. He was also the Deputy Managing Director of Sinoying Logistics Pte. Ltd., the shipping arm of the Sinoying Group and assisted in its daily operations during the same period. Prior to that, Mr Ng had 11 years of experiences in various accounting firms, including KPMG Singapore.

He is currently the independent director and the Chairman of the Audit Committee of Lottvision Limited and Star Pharmaceutical Limited, both are listed on the mainboard of SGX-ST.

Mr Ng is a Chartered Accountant and a member of the Institute of Singapore Chartered Accountants and Singapore Institute of Directors. Mr Ng is also a fellow member of the Association of Chartered Certified Accountants, UK.

MR LU CHAO-HO

Manager for Production

Mr Lu Chao-Ho 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 Yong 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 Qin joined the Group in 2004 and is responsible for technology management and research and development strategies and plans of our Group. 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.

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Corporate Governance

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 2012 ("the Code") issued by the Council on Corporate Disclosure and Governance ("CCDG"). This report describes the Group's corporate governance practices with specific reference to each of the principles of the Code.

(A) BOARD MATTERS

Board's Conduct of its Affairs

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

All Directors objectively discharge their duties and responsibilities at all times as fiduciaries and take decisions in the interests of the Company.

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") (collectively "Board Committees'). These Board 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.

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

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

Principle 1: Every company should be headed by an effective Board to lead and control the company. The Board is collectively responsible for the long term success of the Company. The Board works with Management to achieve this objective 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 2013 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
Neo Chee Beng (1)	10	5	5	3	4	2	4	2
Lin Daoqin (2)	10	10	5	3*	4	3	4	1*
Yuan Limin (3)	10	0	5	1*	4	1*	4	1*
Ong Kian Guan (4)	10	5	5	3	4	2	4	2
Teo Kean Eek (5)	10	0	5	0	4	1*	4	0
Dr In Nany Sing Charlie (6)	10	5	5	2	4	2	4	2
Chan Kum Ee (7)	10	5	5	2	4	2	4	2
Lim Chai Har (8)	10	5	5	2	4	2	4	2
Su Chi-ho (9)	10	1	5	1	4	0	4	0

(1) Mr Neo Chee Beng was appointed as the Lead Independent Director on 31 July 2013. He was re-designated as the Executive Chairman on 27 December 2013.

(2) Mr Lin Daoqin ceased to be a member of the NC on 31 July 2013.

(3) Mr Yuan Limin was appointed as the Non-Executive Director on 27 December 2013.

(4) Mr Ong Kian Guan was appointed as the Independent Director on 31 July 2013 and had resigned as the Independent Director on 27 March 2014.

(5) Mr Teo Kean Eek was appointed as the Independent Director on 27 December 2013.

(6) Dr In Nany Sing Charlie had resigned as the Non-Executive Chairman and Independent Director on 31 July 2013.

(7) Mr Chan Kum Ee had resigned as the Independent Director on 31 July 2013.

(8) Ms Lim Chai Har had resigned as the Independent Director on 31 July 2013.

(9) Mr Su Chi-ho had resigned as the Non-Executive Director on 27 December 2013.

* By invitation

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.

Independent Directors and Non-Executive Directors are routinely briefed by the Executive Directors or Senior Managers at Board meetings or at separate sessions, and are 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 Secretary to familiarize them with the Group's business and have access to Executive Directors, Management and the Company Secretary.

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.

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

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

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 and 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's securities and restrictions on disclosure of price sensitive information and furnished with information and updates on the Group's corporate governance practices at the time of appointment as well as the latest updates in laws and regulations affecting the Group's business.

A formal letter of appointment would be furnished to every newly-appointed Director upon their appointment explaining, among other matters, their roles, obligations, duties and responsibilities as member of the Board.

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 and 10% shareholders. No individual or small group of individuals should be allowed to dominate the Board's decision making.

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

Name of Directors	Board	AC	NC	RC
Neo Chee Beng (1)	Executive Chairman	–	–	–
Lin Daoqin (2)	Executive Director and Chief Executive Officer	–	–	–
Yuan Limin (3)	Non-Executive Director	Member	Member	Member
Kwok Wei Woon (Guo Weiwen) (4)	Independent Director	Chairman	Member	Member
Teo Kean Eek (5)	Independent Director	Member	Chairman	Chairman

(1) Re-designated from Independent Director to Executive Chairman on 27 December 2013.

(2) Re-designated from Executive Chairman and Chief Executive Officer to Executive Director and Chief Executive Officer on 27 December 2013.

(3) Appointed as Non-Executive Director, member of the AC, NC and RC on 27 December 2013.

(4) Appointed as Independent Director, Chairman of the AC and member of the NC and RC on 27 March 2014.

(5) Appointed as Independent Director, Chairman of the NC and RC and member of the AC on 27 December 2013.

There is presently a strong and independent element on the Board. One-third 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.

There is no Independent Director who has served on the Board beyond nine years from the date of his first appointment.

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

Board Composition and Guidance (Cont'd)

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 and 10% shareholders. No individual or small group of individuals should be allowed to dominate the Board's decision making. (Cont'd)

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 the 'Board of Directors' section of this Annual Report.

The Independent Directors exercise no Management functions in the Group. The role of the Non-Executive Directors and Independent Directors is particularly important in ensuring that the strategies proposed by the Management are fully discussed and rigorously examined and reviewing the performance of the Management in meeting agreed goals and objectives and monitor the reporting of performance.

The Company co-ordinates informal meeting sessions for Independent Directors to meet on a need-basis without the presence of the Management to discuss matters such as the Group's financial performance, corporate governance initiatives, Board processes, succession planning as well as leadership development and the remuneration of the Executive Directors.

Chairman and Chief Executive Officer ("CEO")

Principle 3: There should be a clear division of responsibilities between the leadership of the Board and the executives responsible for managing the Company's business. No one individual should represent 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 Secretary 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 and re-appointment of Directors to the Board.

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

<u>Nominating Committee</u>

Mr Teo Kean Eek	(Chairman)
Mr Kwok Wei Woon (Guo Weiwen)	
Mr Yuan Limin	

Mr Teo Kean Eek and Mr Yuan Limin were appointed as the Chairman of the NC and member of the NC on 27 December 2013 respectively. Mr Kwok Wei Woon (Guo Weiwen) was appointed as the member of the NC on 27 March 2014.

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.

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 Mr Neo Chee Beng, Mr Yuan Limin, Mr Teo Kean Eek and Mr Kwok Wei Woon (Guo Weiwen), 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.

Board Membership (Cont'd)

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

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. Currently, the Board has not determined the maximum number of listed Board representations which any Director may hold. The NC and the Board will review the requirement to determine the maximum number of listed Board representations as and when it deemed fits.

There is no alternate director being appointed to the Board.

Key information on Directors of the Company such as academic and professional qualifications, board committees served, directorships or chairmanships both present and past held over the preceding three years in other listed companies and other major appointments, whether the appointment is executive or non-executive can be found on page 25 of this Annual Report.

Board Performance

Principle 5: There should be a formal annual assessment of the effectiveness of the Board as a whole and its board committees 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.

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

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.

Access to Information

Principle 6: In order to fulfill their responsibilities, directors should be provided with complete, adequate and timely information prior to Board meetings and on an on-going basis so as to enable them to make informed decisions to discharge their duties and responsibilities

The Board has separate and independent access to the Group's Senior Management, the Company Secretary 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 Board Committees papers are prepared for each meeting and are disseminated to the members before the meetings. Board papers and Board Committees papers include financial, business and corporate matters of the Group so as to enable the Directors to be properly briefed on matters to be considered at the Board meetings and Board Committees meetings.

The Company Secretary or his representative administers, attends and prepares minutes of Board meetings and Board 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 Board Committees function effectively. The appointment and removal of the Company Secretary 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 two Independent Directors and one Non-Executive Director as follows:

<u>Remuneration Committee</u>

Mr Teo Kean Eek	(Chairman)
Mr Kwok Wei Woon (Guo Weiwen)	
Mr Yuan Limin	

Mr Teo Kean Eek and Mr Yuan Limin were appointed as the Chairman of the RC and member of the RC on 27 December 2013 respectively. Mr Kwok Wei Woon (Guo Weiwen) was appointed as the member of the RC on 27 March 2014.

The key duties of the RC are:

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

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

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

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

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

No Director is involved in deciding his own remuneration.

The RC has access to seek 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.

In reviewing the service agreements of the Executive Directors and key management personnel of the Company, the RC will review the Company's obligations arising in the event of termination of these service agreements, to ensure that such service agreements contain fair and reasonable termination clauses which are not overly generous. The RC aims to be fair and avoid rewarding poor performance.

Level and Mix of Remuneration

Principle 8: The level and structure of remuneration should be aligned with the long-term interest and risk policies of the company and should be appropriate to attract, retain and motivate (a) the directors to provide good stewardship of the company, and (b) key management personnel to successfully manage the company. However, companies should avoid paying more than is necessary for this purpose.

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. The Company is currently reviewing and revising the terms of the service agreement with Mr Lin Daoqin to be executed upon finalization.

The Company does not have any employee share option scheme or any long-term incentive scheme in place.

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 shareholders' approval at the Company's AGM.

The Company does not use contractual provisions to allow the Company to reclaim incentive components of remuneration from Executive Directors and key management personnel in exceptional circumstances of misstatement of financial results, or of misconduct resulting in financial loss to the Company. The Executive Directors owe a fiduciary duty to the Company. The Company should be able to avail itself to remedies against the Executive Directors in the event of such breach of fiduciary duties.

Disclosure of remuneration

Principle 9: Every 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 management personnel, and performance.

(a) The details of the remuneration paid/payable by the Company to the Directors for the financial year ended 31 December 2013 are approximately as follows:

Directors Remuneration below S$250,000	Financial Year ended 31 December 2013 S$
Neo Chee Beng (1)	20,833
Lin Daoqin (2)	243,712
Yuan Limin (3)	–
Kwok Wei Woon (Guo Weiwen) (4)	–
Teo Kean Eek (5)	–
Ong Kian Guan (6)	20,833
Su Chi-ho (7)	48,840
In Nany Sing Charlie (8)	35,000
Lim Chai Har (9)	29,167
Chan Kum Ee (10)	29,167

Disclosure of remuneration (Cont'd)

Principle 9: Every 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 management personnel, and performance. (Cont'd)

Breakdown of each individual Director's remuneration, in percentage terms showing the level and mix for the financial year ended 31 December 2013 is as follows:

Financial Year ended 31 December 2013

Directors	Salary	Fee	Bonus	Other Benefits	Total
Neo Chee Beng (1)	–	100%	–	–	100%
Lin Daoqin (2)	100%	–	–	–	100%
Yuan Limin (3)	–	–	–	–	–
Kwok Wei Woon (Guo Weiwen) (4)	–	–	–	–	–
Teo Kean Eek (5)	–	–	–	–	–
Ong Kian Guan (6)	–	100%	–	–	100%
Su Chi-ho (7)	–	100%	–	–	100%
In Nany Sing Charlie (8)	–	100%	–	–	100%
Lim Chai Har (9)	–	100%	–	–	100%
Chan Kum Ee (10)	–	100%	–	–	100%

Notes:

(1) Appointed as Lead Independent Director on 31 July 2013 and re-designated as Executive Chairman on 27 December 2013.

(2) Re-designated from Executive Chairman and CEO to Executive Director and CEO on 27 December 2013.

(3) Appointed as Non-Executive Director on 27 December 2013.

(4) Appointed as Independent Director on 27 March 2014.

(5) Appointed as Independent Director on 27 December 2013.

(6) Appointed as Independent Director on 31 July 2013 and resigned as Independent Director on 27 March 2014.

(7) Resigned as Non-Executive Director on 27 December 2013.

(8) Resigned as Non-Executive Chairman and Independent Director on 31 July 2013.

(9) Resigned as Independent Director on 31 July 2013.

(10) Resigned as Independent Director on 31 July 2013.

(b) The remuneration of the top five key management personnel (who are not the Directors) for the financial year ended 31 December 2013 (in alphabetical order) are approximately as follows:

Key Management Personnel	Salary	Bonus	Other Benefits	Total
Chan Koon Fat (1)	S$122,100	–	–	S$122,100
Lin Xiong	S$40,982	–	–	S$40,982
Lin Xiujin	S$112,515	–	–	S$112,515
Lu Chao-Ho	S$117,935	–	–	S$117,935
Ng Poh Khoon (2)	–	–	–	–
Zheng Yong	S$76,933	–	–	S$76,933

Notes:

(1) Mr Chan Koon Fat resigned as the Chief Financial Officer on 1 January 2014.

(2) Mr Ng Poh Khoon was appointed as the Finance Director on 13 August 2013 and re-designated as Chief Financial Officer on 1 January 2014.

Disclosure of remuneration (Cont'd)

Principle 9: Every 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 management personnel, and performance. (Cont'd)

The aggregate amount of the total remuneration paid (including benefit) to the key management personnel for the financial year ended 31 December 2013 was S$472,683.

Immediate Family Members of Directors

Other than Ms Lin Xiujin, Mrs Mu Guoron, and Mrs Lin Yunzhu, no employee of the Group is an immediate family member of a Director or substantial shareholder and whose remuneration exceeds S$50,000 during the year.

The Company has no share-based compensation scheme or any long-term scheme involving the offer of shares or options in place.

(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.

In line with the SGX-ST 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. The Board would take adequate steps to ensure the compliance with the legislative and regulatory requirements and establishing written policies where appropriate.

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.

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 Board is responsible for the overall internal control framework, but acknowledges that no cost-effective internal control system will preclude all errors and irregularities. The system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material misstatement or loss. The internal controls in place will address the financial, operational and compliance risks and the objectives of these controls are to provide reasonable assurance that there are no material financial misstatements or material loss, there are maintenance of proper accounting records, financial information are reliable and assets are safeguarded.

RISK MANAGEMENT AND INTERNAL CONTROLS (CONT'D)

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. (Cont'd)

Based on the discussion with and the reports submitted by the external 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, compliance and information technology risks maintained by the Company and in place throughout the financial year ended 31 December 2013 are adequate, but warrants further adjustments and improvements. The system 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 CEO and the Chief Financial Officer have assured the Board that:

(a) The financial records have been properly maintained and the financial statements for the financial year ended 31 December 2013 give a true and fair view in all material respects, of the Company's operations and finances; and

(b) The Group's internal control systems are operating effectively in all material respects given its current business environment.

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 Directors. The AC members are as follows:

<u>Audit Committee</u>

Mr Kwok Wei Woon (Guo Weiwen) (Chairman)
Mr Teo Kean Eek
Mr Yuan Limin

Mr Teo Kean Eek and Mr Yuan Limin were appointed as the Chairman of the AC and member of the AC on 27 December 2013 respectively. Mr Kwok Wei Woon (Guo Weiwen) was appointed as the member of the AC on 27 March 2014.

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;

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)

- 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.

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.

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 AC has full access to and co-operation of the 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.

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.

Annually, the AC meets with the external auditors without the presence of the Management and had established that the external auditors have had the full co-operation of the 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. Fee paid or payable by the Company to the external auditors for audit services for the financial year ended 31 December 2013 amounted to S$230,000. For the financial year ended 31 December 2013, there were no non-audit fees paid to the external auditors.

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. As of to-date, there were no reports received through the whistle-blowing mechanism.

Internal Audit

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

The Company has obtained quotations from several professional firms for outsourcing its internal audit functions. While evaluating the internal audit services provided by several professional firms and engagement of the internal auditors, the Company had engaged PricewaterhouseCoopers LLP to review the cash and bank balances of the Group for enhancing its corporate governance.

The roles of the internal auditors are to:

a) assess the effectiveness of the key internal controls, including financial, operational, compliance and information technology controls and risk management on an on-going basis;

b) identify and recommend improvement to internal control procedures, where required; and

c) Non-compliance and internal control weaknesses noted during internal audits and the recommendations thereof are reported to the AC.

The internal auditors would report directly to the AC on internal audit matters and may request from it the necessary resources to adequately perform its functions. The internal auditors would have unfettered access to all the Company's documents, records, properties and personnel, including access to the AC.

The AC will review the adequacy of the internal audit function annually and ensures that the internal audit function is adequately resourced and is staffed by suitable qualified and experienced professionals with the relevant experience.

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

SHAREHOLDER RIGHTS AND RESPONSIBILITES

Shareholder Rights

Principle 14: Companies should treat all shareholders fairly and equitably, and should recognize, protect and facilitate the exercise of shareholder's rights and continually review and update such governance agreements

The Company does not practice selective 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.

All shareholders of the Company receive the annual report and notice of AGM. All shareholders are entitled to attend the general meetings. At general meetings, the shareholders are given the opportunity to voice their views and ask the Directors or the Management questions regarding the Company's affairs. 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.

The Company's current Bye-Laws does not include the nominee or custodial services to appoint more than two proxies.

(D) COMMUNICATION WITH SHAREHOLDERS

Principle 15: Companies should actively engage their shareholders and put in place an investor relations policy to promote regular, effective and fair communication with shareholders.

The Company believes in high standards of transparent corporate disclosure, 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.

CONDUCT OF SHAREHOLDER MEETINGS

Principle 16: Companies should encourage greater shareholder participation at general meeting of shareholders, and allow shareholders the opportunity to communicate their views on various matters affecting the Company.

The shareholders are encouraged to attend the Company's general meetings to ensure a high level of accountability and to stay informed of the Group's strategies and growth plans. Notice of the general meeting 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 general meetings.

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.

The Chairman of the AC, NC and RC are normally present and available to address questions relating to the work of their respective Board Committees at general meetings. Furthermore, the external auditors are present to assist our Board in addressing any relevant queries by our shareholders.

The Company will make available minutes of general meetings to shareholders upon their request.

(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. The Company and its officers are not allowed 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, and ending on the date of announcement of the relevant results. In addition, the Directors and officers are expected to observe insider-trading laws at all times even when dealing in securities within the permitted trading period or when they are in possession of unpublished price-sensitive information of the Company.

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 2013.

(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 has provided personal guarantees to Shanghai Pudong Development Bank, Fuqing Branch in respect of some banking facilities granted to the Company. 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.

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	Date of Last Re-election	Directorships in other listed companies and other major appointments	Past directorships in other listed companies and other major appointments over the preceding 3 years
Mr Lin Daoqin	High School Education	Executive Director and Chief Executive Officer	Board Member	19 December 2007	26 April 2013	Nil	Nil
Neo Chee Beng	Fellow of the Association of Chartered Certified Accountants, United Kingdom and a member of Singapore Institute of Directors	Executive Chairman	Board Member	31 July 2013	–	● LottVision Ltd ● China Finance On-Line Ltd	Nil
Yuan Limin	Bachelor degree in finance from Beijing Institute of Technology	Non-Executive Director	Board Member, Member of the AC, NC and RC	27 December 2013	–	NIL	Nil
Kwok Wei Woon (Guo Weiwen)	Master of Commerce degree (majoring in advance finance) and a Bachelor of Commerce degree (majoring in Accounting and Finance) from University of New South Wales. He is also a Certified Financial Planner (CFP) and a certified accountant with CPA Australia as well as a member with Singapore Institute of Directors.	Independent Director	Board Member, Chairman of the AC and Member of the NC and RC	27 March 2014	–	● ISR Capital Ltd	Nil
Teo Kean Eek	Master of Science in Engineering Economic Systems, Bachelor of Science in Electrical Engineering and Charter Financial Analyst (CFA) since year 2000	Independent Director	Board Member, Chairman of the NC and RC and Member of the AC	27 December 2013	–	● Agile Partners (BVI) Ltd ● Tianjin Wealth Venture Management Limited	● Pharmesis International Ltd ● Agile Partners (Hong Kong) Limited ● Sinosoft Technology Plc ● Beijing GaiNianFong Li Movie Private Limited ● BlueStar Secutech, Inc

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 2013.

Names of Directors

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

Neo Chee Beng - Executive Chairman (appointed on 31 July 2013)
Lin Daoqin (林道钦) - Executive Director and Chief Executive Officer
Yuan Limin (原立民) - Non-Executive Director (appointed on 27 December 2013)
Kwok Wei Woon (Guo Weiwen) - Independent Director (appointed on 27 March 2014)
Teo Kean Eek- Independent Director (appointed on 27 December 2013)

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				
<u>The Company</u>	Number of shares of US$0.05 each *			
	As at 1.1.2013 or date of appointment, if later	**As at 31.12.2013 and 21.01.2014**	As at 1.1.2013 or date of appointment, if later	**As at 31.12.2013 and 21.01.2014**
Lin Daoqin[(1)(2)]	14,400,000	**–**	258,809,913	**–**
	Number of shares of US$0.005 each *			
Lin Daoqin[(1)(2)]	–	**14,400,000**	–	**258,809,913**
Qian Feng Group Limited				
<u>The ultimate holding company</u>	Number of shares of US$1.00 each			
Lin Daoqin	6,000	**6,000**	–	**–**

(1) Mr Lin Daoqin is deemed to be interested in the shares held by Qian Feng Group Limited ("Qian Feng Group") (see Note (2) below) and the shares held by his spouse, Mdm Lin Xiujin..

(2) Mr Lin Daoqin is deemed to be interested in 244,409,913 ordinary shares in the Company held by Qian Feng Group. Qian Feng Group is a company which is owned by Mr Lin Daoqin (60%).

* With effect from 28 November 2013, the paid-up capital of the Company was cancelled to the extent of US$0.045 on each of the issued shares of par value US$0.05 in the share capital of the Company, please refer to Note 12 to the financial statements for more details.

Directors' benefits

Except as disclosed in Note 22 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

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.

There were no unissued shares of the Company or its subsidiary under options as at the end of the financial year.

Audit Committee

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

Ong Kian Guan – Chairman (appointed on 31 July 2013 and resigned on 27 March 2014)
Kwok Wei Woon – Chairman (appointed on 27 March 2014)
Teo Kean Eek
Yuan Limin

The AC performs its functions as set out in the Listing Manual of the Singapore Exchange Securities Trading Limited ("SGX-ST") and the Code of Corporate Governance 2012. 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 SGX-ST).

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

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

Independent auditor

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

Other information required by the SGX-ST

Material information

Apart from the Service Agreements between the Executive Director and Chief Executive Officer, Lin Daoqin and the Company, there are no material contract to which the Company or its subsidiaries, is a party which involve directors' interests subsisted or have been entered into during the financial year.

Interested person transactions

There was no interested person transactions as defined in Chapter 9 of the Listing Manual of the SGX-ST conducted during the financial year except as disclosed under "Interested Person Transactions" on "Corporate Governance".

On behalf of the Board of Directors

NEO CHEE BENG

LIN DAOQIN

Dated: 30 April 2014

Statement by Directors

In the opinion of the Directors, the accompanying statements of financial position, consolidated statement of profit or loss and other 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 2013 and of the results of the business, changes in equity and cash flows of the Group for the financial year ended on that date in accordance with Singapore Financial Reporting Standards; and at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

On behalf of the Board of Directors

NEO CHEE BENG

LIN DAOQIN

Dated: 30 April 2014

Independent Auditor's Report

To the Member 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 2013, the statement of profit or loss and other 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 32 to 72 to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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 qualified audit opinion.

Basis for Qualified Opinion

Compensation claims by claimants

During the financial year ended 31 December 2013 the Group recorded compensation claims amounting to RMB 424.58 million as an expense in profit or loss for the year. These compensation claims had either been paid and/or fully provided for in the financial statements of the Group as at 31 December 2013.

Under the settlement agreements entered into between the Group and certain customers of the Group (the "claimants") in relation to the defective products sold by the Group to the claimants that resulted in defective shoes produced and manufactured by the claimants, the total compensation claims by claimants were RMB 424.58 million out of which RMB 300 million was paid in September 2013 and the remaining amount of RMB 124.58 million is payable over five years from future sales to these claimants including setting off of any outstanding trade debts owed by these claimants to the Group. Based on information, explanation and representations received from management, the Group had given up the ownership rights and title to the defective shoes from its claimants in exchange for a reduced amount of compensation claims by claimants. Subsequent to the financial year on 10 March 2014, the claimants served notices of arbitration against the Group. On 13 March 2014, an arbitration commission had confirmed that the terms of the settlement agreements were valid and enforceable, and affirmed that the Group was required to pay compensation amounting to RMB 86.5 million (refer to Note 16) to the claimants by way of the provision of products over the period of sixty months.

We did not physically sight or attend the inventory count of the defective shoes that were the subject of the compensation claims by the claimants. We were also not able to perform satisfactory alternative procedures on the compensation claims by claimants as the Group does not and was unable to provide contemporaneous accounting records and documents of the inventories of defective shoes belonging to the claimants nor the production of the defective shoes as these shoes were not produced by the Group. We were unable to obtain sufficient and appropriate evidence that will adequately support the amount of compensation claims by claimants as recorded in the books of the Group. We were also unable to perform the necessary audit procedures to ascertain the completeness of the compensation claims due to the lack of information and related documents of the Group.

We were unable to perform the necessary audit procedures and were unable to obtain sufficient and appropriate audit evidence in relation to the confirmation by the arbitration commission to satisfy ourselves as to the verifiability of the compensation claims by claimants. The company appointed a law firm in the People's Republic of China ("PRC") to review the arbitration proceedings and provide advice to the Board of Directors of the Company. On 15 April 2014, the law firm opined that the settlement agreements are legal and enforceable, the arbitration commission's confirmation of the settlement agreements is legal and in accordance with the laws in the PRC and that the claimants cannot make any other claims against the Group provided the terms and conditions of the arbitration commission's confirmation have been complied with. Notwithstanding this, as stated in the preceding paragraphs, we were unable to obtain sufficient appropriate audit evidence to ascertain the appropriateness of amount of compensation claims by claimants in the financial statements. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

Qualified Opinion

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, 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 so as to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2013 and of the results, changes in equity and cash flows of the Group for the year ended on that date.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2(a) to the financial statements which sets out the uncertainties over the going concern assumption used in the preparation of the statement of financial position of the Company and the consolidated financial statements of the Group. The appropriateness of the going concern assumption on which the statement of financial position of the Company and the consolidated financial statements of the Group are prepared is dependent on the continued support from the shareholders of the Company and the Group's ability to generate sufficient cash from its operations to meet its obligation as and when they fall due. The going concern assumption is also dependent on the provision of loans of up to RMB 100 million by the Company's Chief Executive Officer ("CEO"), director and shareholder, Lin Daoqin, on demand by the Company to support the financial position of the Company. On 23 April 2014, Lin Daoqin has executed a deed of undertaking prepared under PRC laws to the Company in relation to the provision of loans of up to RMB 100 million. The CEO had also on the same date executed a mortgage, governed by PRC law, over four of his properties in Fuzhou city in the Fujian province in PRC which are estimated to be worth above an aggregate of RMB 120 million, as security for the irrevocable undertaking. If the supports from these parties are not forthcoming, or the Group is unable to generate sufficient cash from its operations, the Group may be unable to continue in operational existence for the foreseeable future. In forming our opinion, we have considered the adequacy of the disclosures of the above matter in the financial statements.

Foo Kon Tan Grant Thornton LLP
Public Accountants and
Chartered Accountants

Singapore,
30 April 2014

Statements of Financial Position

As at 31 December 2013

	Note	The Company			The Group	
		31 December 2013	31 December 2012 (Restated)	1 January 2012	**31 December 2013**	31 December 2012
		RMB'000	RMB'000	RMB'000	**RMB'000**	RMB'000
ASSETS						
Non-Current Assets						
Intangible assets	4	**–**	–	–	**–**	–
Property, plant and equipment	5	**–**	–	–	**47,176**	55,018
Land use rights	6	**–**	–	–	**7,831**	8,013
Subsidiaries	7	**3,251**	214,063	214,293	**–**	–
		3,251	214,063	214,293	**55,007**	63,031
Current Assets						
Inventories	8	**–**	–	–	**12,041**	15,874
Trade receivables	9	**–**	–	–	**67,637**	50,234
Prepayments and other receivables	10	**–**	–	–	**3,663**	3,101
Cash and cash equivalents	11	**137**	36	23	**9,986**	379,243
		137	36	23	**93,327**	448,452
Total assets		**3,388**	214,099	214,316	**148,334**	511,483
EQUITY						
Share capital	12	**19,220**	192,203	192,203	**19,220**	192,203
Reserves	13	**(45,391)**	(14,652)	15,719	**(18,737)**	229,239
Total equity		**(26,171)**	177,551	207,922	**483**	421,442
Current Liabilities						
Trade payables	14	**–**	–	–	**24,496**	18,420
Accruals and other payables	15	**26,858**	36,548	6,394	**22,979**	33,856
Compensation payables – current portion	16	**–**	–	–	**17,400**	–
Amount due to director/ shareholder	17	**2,701**	–	–	**2,701**	–
Bank loans	18	**–**	–	–	**7,766**	35,387
Tax payable		**–**	–	–	**1,182**	–
		29,559	36,548	6,394	**76,524**	87,663
Non-Current Liabilities						
Compensation payables	16	**–**	–	–	**69,730**	–
Bank loans	18	**–**	–	–	**1,597**	2,378
		–	–	–	**71,327**	2,378
Total equity and liabilities		**3,388**	214,099	214,316	**148,334**	511,483

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

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the financial year ended 31 December 2013

		The Group	
		2013	2012
	Note	**RMB'000**	RMB'000
Revenue	3	**155,468**	173,944
Cost of sales		**(134,901)**	(181,277)
Gross results		**20,567**	(7,333)
Other operating income	3	**12,963**	2,486
Selling and distribution expenses		**(5,738)**	(6,005)
Administrative expenses		**(20,788)**	(32,464)
Other operating expenses	19	**(424,580)**	(49,696)
Finance costs	20	**(2,155)**	(2,500)
Loss before taxation	21	**(419,731)**	(95,512)
Income tax expense	23	**(1,228)**	(136)
Loss for the year attributable to owners of the Company		**(420,959)**	(95,648)
Other comprehensive income, net of tax		**–**	–
Total comprehensive loss attributable to owners of the Company		**(420,959)**	(95,648)
Loss per share		**fen**	fen
- Basic	24	**(76.71)**	(17.43)
- Diluted	24	**(76.71)**	(17.43)

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 2013

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	Contributed surplus (Note 13(f)) RMB'000	Retained profits/ (Accumulated loss) RMB'000	Total equity RMB'000
Balance at 1 January 2012	192,203	65,466	4,230	(64,889)	45,303	1,224	-	273,553	517,090
Loss and representing 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**
Credit arising from the Capital Reorganization exercise undertaken by the Company (Note 12(d))	**(172,983)**	**–**	**–**	**–**	**–**	**–**	**172,983**	**–**	**–**
Loss and representing total comprehensive loss for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(420,959)**	**(420,959)**
Balance at 31 December 2013	**19,220**	**65,466**	**4,230**	**(64,889)**	**45,303**	**1,224**	**172,983**	**(243,054)**	**483**

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 2013

	Note	The Group 2013 RMB'000	The Group 2012 RMB'000
Cash flows from operating activities			
Loss before taxation		**(419,731)**	(95,512)
Adjustments for:			
Impairment loss on property, plant and equipment	5	**–**	22,500
Depreciation of property, plant and equipment	5	**8,327**	11,683
Amortisation of land use rights	6	**182**	181
Loss on disposal of property, plant and equipment		**–**	158
Inventory written down to net realisable value	4	**–**	11,673
(Reversal of provision)/Provision for compensation to distributors	15	**(11,562)**	21,850
Provision for minimum guaranteed royalty	15	**–**	5,346
Interest income		**(1,088)**	(1,904)
Interest expense		**2,155**	2,500
Operating profit/(loss) before working capital changes		**(421,717)**	(21,525)
Changes in inventories		**3,833**	(6,955)
Changes in trade receivables		**(17,403)**	77,825
Changes in prepayments and other receivables		**(562)**	4,274
Liability for compensation payables (Note A)		**87,130**	–
Changes in trade payables		**6,076**	(21,122)
Changes in accrued liabilities and other payables		**685**	(2,316)
Cash (used in)/generated from operations		**(341,958)**	30,181
Interest received		**1,088**	1,904
Interest paid		**(2,155)**	(2,500)
Income tax paid		**(46)**	(5,636)
Net cash (used in)/generated from operating activities		**(343,071)**	23,949
Cash flows from investing activities			
Acquisition of property, plant and equipment	5	**(485)**	(6,232)
Proceeds from disposal of property, plant and equipment		**–**	98
Net cash used in investing activities		**(485)**	(6,134)
Cash flows from financing activities			
Proceeds from bank loans		**–**	37,765
Repayment of bank loans		**(28,402)**	(23,000)
Amount due to a director/shareholder		**2,701**	–
Net cash (used in)/generated from financing activities		**(25,701)**	14,765
Net (decrease)/increase in cash and cash equivalents		**(369,257)**	32,580
Cash and cash equivalents at beginning of year		**379,243**	346,663
Cash and cash equivalents at end of year	11	**9,986**	379,243

Note A

The Group	**2013 RMB'000**	2012 RMB'000
Liability for compensation expenses	**424,580**	–
Amounts paid	**(300,000)**	–
	124,580	–
Set-off against trade receivables	**(37,450)**	–
Compensation payable in consolidated statement of financial position as at 31 December 2013	**87,130**	–

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 2013 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) Going Concern

The Group incurred net losses of approximately RMB420,959,000 and negative cash flow from operating activities of approximately RMB343,071,000 for the financial year ended 31 December 2013. As of that date, the Company's current liabilities exceeded current assets by RMB29,422,000 and the Company had recorded a deficit in shareholders' funds of RMB26,171,000. The equity of the Group stood at RMB483,000 as at 31 December 2013.

These events and conditions indicate the existence of a material uncertainties over the going concern assumption used in the preparation of the statement of financial position of the Company and the consolidated financial statements of the Group. The Company and all of its Directors are of the view that the Company and the Group will be able to pay its liabilities, which includes the accounts payables, accruals, other payables, compensation payables and bank loans, as they fall due. Based on the foregoing and the operational needs of the Group, the Group is likely to remain a going concern for the following reasons:

(i) Notwithstanding that the Group will incur costs for the sales in respect of the compensation payable of RMB87,130,000 (refer to Note 16) over the next five years, the Board has considered the estimated annual sales for the Group's top ten customer contracts for FY2014, and is of the unanimous opinion that the cash and profit generated from its other sales will be able to support the working capital of the Group;

(ii) The Group intends to raise a further S$2,900,000 from the proposed placement for working capital purposes; and

(iii) The Chief Executive Officer ("CEO") of the Company has executed a deed of undertaking prepared under PRC laws to the Company to provide, on demand by the Company, loans of up to RMB 100 million to support the financial position of the Group. On 23 April 2014, the CEO executed an irrevocable letter of undertaking, prepared under PRC laws for settlement of debts governed by PRC law in favour of the Company to provide financial support to the Company of an amount of up to RMB 100 million. In connection thereto, the CEO had also on the same date executed a deed of mortgage, governed by the PRC laws, over four of his properties in Fuzhou city in the Fujian province in the PRC which are estimated to be worth above an aggregate of RMB 120 million, as security for the irrevocable undertaking.

2(b) 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") of Singapore. The financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies set out below.

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

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% (2012 - 5%) difference in the expected useful lives of these assets from management's estimates would result is approximately 1% (2012 -1%) variance in the Group's loss for the financial year.

<u>Impairment of non-financial assets (Notes 4, 5, 6 and 7)</u>

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.

The estimated value-in-use or recoverable amount is higher than the non-current assets of the Group and consequently no impairment loss is recognized at the Group level. If the assumed gross margin used to estimate recoverable amount had declined by 37%, the recoverable amount of the CGU would fall to its carrying amount.

<u>Impairment of subsidiaries (Note 7)</u>

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 RMB3.25 million 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. A 1% increase/decrease in discount rate would result in an increase/decrease in impairment losses in subsidiaries by approximately RMB 3,251,000 and RMB 7,750,000 respectively.

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

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. If the net realisable value of the inventories decreases by 10% from management's estimates, the loss of the Group will increase by RMB 284,000.

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.

If the net present values of estimated cash flows had been lower by 10% from management's estimates for all past due loans and receivables; the allowance for impairment of the Group would have been higher by RMB380,800. However, the Group does not foresee any additional impairment in trade and other receivables.

Provisions (Note 15)

The Group and the Company have 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 (Note 23)

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 2013 as payment of dividend if any, can be controlled and it is probable that profits accumulated from 1 January 2008 will not be distributed in the foreseeable future.

Income tax (Note 23)

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.

Compensation claims (Note 16)

The Group has recognised a liability for compensation claims to customers under the terms of the settlement agreement entered with each respective individual customer. The terms of the settlement agreements have been confirmed by Fuzhou Arbitration Centre in the PRC to be valid and legally enforceable. In order to stay effective, Fuzhou Arbitration Centre has also affirmed that no further claims can be made by customers on the basis of the settlement terms and conditions under the arbitration proceedings. The Group will observe and expects to comply with all the terms and conditions under the arbitration proceedings.

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

2(c) Interpretations and amendments to published standards effective in 2013

Adoption of new or revised FRS

On 1 January 2013, the Group adopted the new or amended FRS and Interpretations to FRS ("'INTFRS") that are mandatory for application from that date.

Reference	Description
FRS 1	Presentation of Items of Other Comprehensive Income
FRS 19	Employee Benefits
FRS 107	Disclosures - Offsetting Financial Assets and Financial Liabilities
FRS 113	Fair Value Measurement
Improvements to FRSs 2012	

<u>FRS 1 Presentation of items of Other Comprehensive Income</u>

The amendments to FRS 1 *Presentation of Items of Other Comprehensive Income* (OCI) are effective for financial periods beginning on or after 1 July 2012.

The amendments to FRS 1 changes the grouping of items presented in OCI. Items that could be classified to profit or loss at a future point in time would be presented separately from items which will never be reclassified. As the amendments only affect the presentations of items that are already recognised in OCI, the Group does not expect any impact on its financial position or performance upon adoption of this standard.

<u>FRS 107 Disclosures - Offsetting Financial Assets and Financial Liabilities</u>

The amendments to FRS 107 provides disclosure requirements that are intended to help investors and other financial statement users better assess the effect or potential effect of offsetting arrangements on a company's financial position. The new disclosures require information about the gross amount of financial assets and liabilities before offsetting and the amounts set off in accordance with the offsetting model in FRS 32.

<u>FRS 113 Fair Value Measurement</u>

FRS 113 clarifies the definition of fair value and provides related guidance and enhanced disclosures about fair value measurements. It does not affect which items are required to be fair-valued. The scope of FRS 113 is broad and it applies for both financial and non-financial items for which other FRSs require or permit fair value measurements or disclosures about fair value measurements except in certain circumstances.

FRS 113 applies prospectively for annual periods beginning on or after 1 January 2013. Its disclosure requirements need not be applied to comparative information in the first year of application.

The adoption of amended above standards does not have any material impact on the basic and fully diluted EPS of the Group.

The adoption of the above standards did not result in substantial changes to the Group's accounting policies nor any significant impact on these financial statements.

2(c) Interpretations and amendments to published standards effective in 2013 (Cont'd)

FRS issued but not yet 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)
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
Amendments to FRS 32	Offsetting Financial Assets and Financial Liabilities	1 January 2014
Amendments to FRS 36	Recoverable Amount Disclosures for Non-Financial Assets	1 January 2014
Amendments to FRS 39	Novation of Derivatives and Continuation of Hedge Accounting	1 January 2014
Amendments to FRS 19	Defined Benefit Plans: Employee Contributions	1 July 2014
Improvements to FRSs (2014)	Various	1 July 2014

The directors do not anticipate that the adoption of the above FRSs in future periods will have a material impact on the financial statements of the Company and the Group in the period of their initial adoption.

2(d) 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 profit or loss and other 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.

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. The Group does not have any goodwill at the reporting year end.

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

Consolidation (Cont'd)

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 impairment losses are assessed based on FRS 36 Impairment of Assets which involves the use of value-in-use approach including enterprise valuation methodology in determining the value of the investment in subsidiaries. The above impairment assessment is also applied to amount due from subsidiaries which are in substance net investment in a foreign operation. The accounting policies for subsidiaries are adjusted to be consistent with the policies adopted by the Group.

Loss of control

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

Transactions eliminated on consolidation

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

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.

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

Property, plant and equipment and depreciation (Cont'd)

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

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

Intangible asset

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

Land use rights

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

Financial assets

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

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.

Loans and receivables

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

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

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

Financial assets (Cont'd)

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

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

Cash and cash equivalents

Cash and cash equivalents comprise cash and bank balances.

Inventories

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

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

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 (if any) 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 (if any) 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.

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

Financial liabilities

The Group's financial liabilities include trade payables, accruals and other payables, compensation payable, amount due to director/shareholder and bank loans.

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

Borrowings are recognised initially at fair value of proceeds received less attributable transaction costs, if any. Borrowings are subsequently stated at amortised cost which is the initial fair value less any principal repayments. Any difference between the proceeds (net of transaction costs) and the redemption value is taken to profit or loss 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.

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

Tax (Cont'd)

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

Provisions

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

Onerous contracts

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

Operating leases

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

Key management personnel

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

Employee benefits

Short-term employee benefits

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

Defined contribution plans

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

Employee leave entitlements

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

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

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.

Revenue recognition

<u>Sales of goods</u>

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

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

<u>Interest income</u>

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

Functional currencies

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

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

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

<u>Transactions and balances</u>

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..

<u>Group entities</u>

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.

<u>Net investment in a foreign operation</u>

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 a 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 profit or loss 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.

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

Related parties (Cont'd)

A related party is defined as follows: (Cont'd)

(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;

(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's 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	**2013** **RMB'000**	2012 RMB'000
Revenue		
Sale of dyed fabrics	**155,468**	167,962
Sale of garments (Note 4)	**–**	5,982
	155,468	173,944
Other operating income		
Sale of scrap materials	**313**	218
Write-back of provision for compensation to distributors (Note 15)	**11,562**	–
Interest income	**1,088**	1,904
Foreign exchange gain	**–**	364
	12,963	2,486

4 Intangible asset

The Group and The Company	RMB'000
Cost	
At 1 January 2012/31 December 2012/31 December 2013	2,031
Accumulated amortisation and impairment	
At 1 January 2012/31 December 2012/31 December 2013	2,031
Net book value	
At 31 December 2013/ At 31 December 2012	–

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 RMB Nil (2012 - RMB11,673,000) have been included in cost of inventories sold (Note 8).

Provision for minimum guaranteed royalty (Note 15)

Following the termination of the Agreement with Goodyear on 4 February 2013, a provision of RMB Nil (2012 – RMB 6.038 million) was made in respect of the minimum guaranteed royalty fees payable by the Group and the Company.

4 Intangible asset (Cont'd)

Provision for compensation to distributors (Note 15)

As at 31 December 2012, the Group and the Company 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 2012	–	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
Additions	–	–	474	–	11	485
Reclassifications	(4,727)	–	4,727	–	–	–
At 31 December 2013	–	60,712	84,511	1,759	1,292	148,274
Accumulated depreciation and impairment losses						
At 1 January 2012	–	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
Depreciation for the year	–	1,855	6,090	292	90	8,327
At 31 December 2013	–	36,349	61,979	1,581	1,189	101,098
Net book value						
At 31 December 2013	–	24,363	22,532	178	103	47,176
At 31 December 2012	4,727	26,218	23,421	470	182	55,018

5 Property, plant and equipment (Cont'd)

The Group	2013 RMB'000	2012 RMB'000
Depreciation is charged to:		
Administrative expenses	**1,218**	1,788
Cost of sales	**7,109**	9,895
	8,327	11,683

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 Nil (2012 -RMB4,727,000) 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 RMB20,224,000 (2012 - RMB40,417,000) are pledged as security for the bank loans (Note 18).

Due to losses reported in the Group's results, the Group has recognised impairment losses of RMB Nil (2012 -RMB17,000,000)and RMB Nil (2012 -RMB5,500,000) 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. Refer to Note 7 on the details of the impairment assessment.

6 Land use rights

The Group	RMB'000
Cost	
At 1 January 2012	9,092
Additions	–
At 31 December 2012	9,092
Additions	–
At 31 December 2013	9,092
Accumulated amortisation and impairment losses	
At 1 January 2012	898
Amortisation charge	181
At 31 December 2012	1,079
Amortisation charge	182
At 31 December 2013	1,261
Net book value	
At 31 December 2013	7,831
At 31 December 2012	8,013

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 18).

As at 31 December 2013, 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 RMB 3,331,000 (2012 - RMB3,402,000). Management has assessed land use rights for impairment under FRS 36 Impairment of Assets. No impairment was considered necessary as at the reporting year end date. Refer to Note 7 on the management's assessment of impairment of assets and for details of the impairment assessment.

7 Subsidiaries

The Company	2013 RMB'000	2012 RMB'000
Unquoted equity investments, at cost	**62,339**	62,339
Loans to subsidiaries	**151,724**	151,724
	214,063	214,063
Less: Impairment losses (see note A below)		
Unquoted equity investment	**59,088**	–
Loans to subsidiaries	**151,724**	–
	210,812	–
	3,251	214,063

Note A:
In view of the losses for the year, the management prepared a cash flow forecast ("Forecast") to assess the carrying value of the Group's and the Company's assets. Concurrently the Board also commissioned Peak Vision Appraisals Limited, an independent valuer, which is a Registered Professional Surveyor and Registered Business Valuer, to perform a valuation of the cash generating unit ("CGU") of the Group.

According to the Peak Vision Appraisals Limited's valuation report, there was a shortfall of RMB210.8 million to the carrying value of the Company's non-current assets (cost of investment in subsidiary and amount due from subsidiaries) and consequently an impairment loss of RMB210.8 million has been recognized in profit or loss in the financial statements of the Company for the year ended 31 December 2013.

The impairment loss on the Company's interest in subsidiaries was determined based on the valuation report from Peak Vision using the value-in-use approach and after taking into account non-operating assets such as the compensation payables, cash, other receivables and other payables to derive the enterprise value or the value of the interest in subsidiaries to the Company. The equity value or recoverable amount is calculated after subtracting the value of debt from enterprise value which is shown below:

The Company	2013 RMB'000	2012 RMB'000
Enterprise value	**12,614**	–
Less: Bank loans	**(9,363)**	–
Equity value or recoverable amount	**3,251**	–

A 1% increase/decrease in discount rate would result in an increase/decrease in impairment losses in subsidiaries by approximately RMB 3,251,000 and RMB 7,750,000 respectively.

Value-in-use (the Group)

As stated above, the recoverable amount of the CGU of the Group was determined based on value-in-use. Cash flow projection used in the value-in-use calculations were based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period were extrapolated using the estimated growth rates stated below. The growth rate did not exceed the long-term average growth rate for the fabric business in which the CGU operates. The key assumptions, used for value-in-use calculations were as follows:

The Group

Key assumptions	2013	2012
Gross margin (Average)	**18.00%**	n/a
Growth rate	**3.00%**	n/a
Pre-tax discount rate	**22.37%**	n/a

7 Subsidiaries (Cont'd)

Other key valuation assumptions include:

- The Group will successfully carry out all necessary activities for the development of its business to enable the CGU to continue as a going concern;
- The availability of finance will not be a constraint on the operations of the CGU in accordance with the business plans and its projections;
- There will be no material changes in the business strategy of the CGU and its operating structure of the Group; and
- Key management, competent personnel and technical staffs will all be retained to support the ongoing operation of the CGU.

The estimated value-in-use or recoverable amount is higher than the non-current assets of the Group and consequently no impairment loss is recognized at the Group level. If the assumed gross margin used to estimate recoverable amount had declined by 37% , the recoverable amount of the CGU would fall to its carrying amount.

Details of the subsidiaries are as follows:

Name of company	Country of incorporation	Percentage of equity held		Principal activities
		2013	2012	
		%	%	
Directly held:				
Qianfeng International 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. ("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

* audited by Foo Kon Tan Grant Thornton LLP for the Group's financial statements audit and consolidation purposes.

audited by Fuqing Xinyurong Certified Public Accountants Ltd. (福建鑫玉融会计事务所有限责任公司) for local statutory purposes.

@ not required to be audited in its country of jurisdiction.

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.

8 Inventories, at cost

The Group	2013 RMB'000	2012 RMB'000
Raw materials	**3,138**	6,932
Work-in-progress	**6,778**	6,123
Finished goods	**2,125**	2,819
	12,041	15,874
Cost of inventories included in cost of sales	**132,913**	180,964
- Including inventories written down to net realisable value (Note 4)	**–**	11,673

9 Trade receivables

The Group	2013 RMB'000	2012 RMB'000
Trade receivables from non-related parties	**67,637**	50,234

Trade receivables are non-interest bearing, bears credit terms of 90 days (2012 – 60 to 75 days) and denominated in the followings currencies:

The Group	2013 RMB'000	2012 RMB'000
Renminbi	**67,320**	48,400
Hong Kong Dollar	**–**	832
United States Dollar	**317**	1,002
	67,637	50,234

10 Prepayments and other receivables

The Group	2013 RMB'000	2012 RMB'000
Deposit for purchase of a commercial property (Note 25)	**1,805**	1,805
Prepayments	**1,373**	921
Other receivables	**485**	375
	3,663	3,101

11 Cash and cash equivalents

	The Company		The Group	
	2013 RMB'000	2012 RMB'000	2013 RMB'000	2012 RMB'000
Cash on hand	**–**	–	**29**	75
Cash at bank	**137**	36	**9,957**	379,168
	137	36	**9,986**	379,243

11 Cash and cash equivalents (Cont'd)

For the purpose of the consolidated statement of cash flows, the year end cash and cash equivalents comprise the following:

The Group	**2013** **RMB'000**	2012 RMB'000
Cash on hand	**29**	75
Cash at bank	**9,957**	379,168
	9,986	379,243

Cash and cash equivalents are denominated in the following currencies:

	The Company		The Group	
	2013 **RMB'000**	2012 RMB'000	**2013** **RMB'000**	2012 RMB'000
Renminbi	**–**	–	**9,159**	379,046
Hong Kong Dollar	**–**	–	**445**	154
Singapore Dollar	**137**	36	**137**	36
United States Dollar	**–**	–	**245**	7
	137	36	**9,986**	379,243

At the reporting date, interest bearing bank balances amounting to RMB9,957,000 (2012 - RMB379,168,000) have a weighted average effective interest rate of 0.50% (2012 - 0.48%) per annum.

12 Share capital

	No. of ordinary shares		Share capital	
The Company	**2013** **'000**	2012 '000	**2013** **US$'000**	2012 US$'000
Authorised:				
At beginning and end of year	**8,000,000**	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**	548,802	**27,440**	27,440
Capital reorganization undertaken by the Company	**(548,802)**	–	**(27,440)**	–
At end of year	**–**	548,802	**–**	27,440
Issued and fully paid with par value of US$0.005 per share:				
At beginning of year	**–**	–	**–**	–
Capital reorganization undertaken by the Company	**548,802**	–	**2,744**	–
At end of year	**548,802**	–	**2,744**	–
Issued and fully paid at end of year equivalent to (RMB'000)			**19,220**	192,203

12 Share capital (Cont'd)

Pursuant to the shareholders' circular dated 4 November 2013 ("Circular") in relation to the capital reorganisation exercise of the Company, the following changes to the Company's share capital were approved by the shareholders of the Company on 27 November 2013, with effect from 28 November 2013:

(a) the issued and paid-up share capital of the Company was reduced from US$27,440,131.90 to US$2,744,013.19 by cancelling the paid-up capital of the Company to the extent of US$0.045 on each of the issued shares of par value US$0.05 in the share capital of the Company, so that each issued share of US$0.05 is treated as one fully paid up share of US$0.005 ("Capital Reduction");

(b) subject to and forthwith upon the Capital Reduction taking effect, all the authorised but unissued shares of US$0.05 each in the Company was cancelled and the authorised share capital of the Company of US$40,000,000 was diminished by US$37,255,986.81 representing the amount of shares so cancelled ("Authorised Capital Diminution");

(c) forthwith upon the Authorised Capital Diminution taking effect, the authorised share capital of the Company was increased from US$2,744,013.19 divided into 548,802,638 shares of par value of US$0.005 each to US$40,000,000 divided into 8,000,000,000 of par value US$0.005 each by the creation of 7,451,197,362 shares of US$0.005 each; and

(d) subject to and forthwith upon the Capital Reduction taking effect, the credit amount of US$24,696,118.71 (or equivalent to RMB172,983,000) arising from the Capital Reduction was credited to the contributed surplus account of the Company ((a), (b), (c), and (d) collectively referred to as the "Capital Reorganisation").

As reflected in the Circular, the impact of the Capital Reorganisation on the share capital of the Company is as follows:

	Before the Capital Reorganisation	**After the Capital Reorganisation**
Class of Shares		
Authorised Share Capital		
Number of Shares	800,000,000	8,000,000,000
Par Value (US$)	0.05	0.005
Total (US$)	40,000,000	40,000,000
Issued and Paid-up Capital		
Number of Shares	548,802,638	548,802,638
Par Value (US$)	0.05	0.005
Total (US$)	27,440,131.90	2,744,013.19

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

Group

(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.

(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.

(f) Contributed surplus

Contributed surplus relates to the capital reduction of which resulted from the reorganisation exercise took place on 28 November 2013 (Note 12).

The Company

	31 December 2013	31 December 2012	1 January 2012
	RMB'000	RMB'000 (restated)	RMB'000
Contributed surplus (Note 13(f))	**172,983**	–	–
(Accumulated losses / retained profits), as previously reported	**(218,374)**	13,236	15,719
Prior year adjustment (Note 15)	**–**	(27,888)	–
(Accumulated losses / retained profits), as restated	**(218,374)**	(14,652)	15,719
	(45,391)	(14,652)	15,719

14 Trade payables

Trade payables, denominated in RMB, have credit terms ranging from 30 days to 60 days (2012-45 days to 60 days).

15 Accruals and other payables

		The Company			The Group	
	Note	**31 December 2013 RMB'000**	31 December 2012 RMB'000 (restated)	1 January 2012 RMB'000	**31 December 2013 RMB'000**	31 December 2012 RMB'000
Accrued operating expenses		**4,011**	1,709	2,701	**9,063**	5,968
Non-trade amount due to a subsidiary		**8,931**	6,951	2,972	**–**	–
Accrued licence fees	4	**–**	–	721	**–**	–
Provision for compensation to distributors (a)	4	**8,569**	21,850	–	**8,569**	21,850
Provision for minimum guaranteed royalty (b)	4	**5,347**	6,038	–	**5,347**	6,038
		26,858	36,548	6,394	**22,979**	33,856

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

(a) Provision for compensation to distributors relate to maximum amount of compensation payments under the terms of the distributorship agreement entered into by the Company with certain distributors for the retailing of the Goodyear Products following the termination of the trademark agreement with Goodyear (Note 4). During the year the distributors have agreed to a reduced amount of compensation pursuant to the revised settlement agreements entered into with the distributors. The movement of the provision is as follows:

	The Company			The Group	
	31 December 2013 RMB'000	31 December 2012 RMB'000 (restated)	1 January 2012 RMB'000	**31 December 2013 RMB'000**	31 December 2012 RMB'000
At beginning of year	**21,850**	–	–	**21,850**	–
Provision made during the year	**–**	21,850	–	**–**	21,850
Payments	**(1,719)**	–	–	**(1,719)**	–
Reversal	**(11,562)**	–	–	**(11,562)**	–
At end of year	**8,569**	21,850	–	**8,569**	21,850

(b) Provision for minimum guaranteed royalty relates to minimum guaranteed royalty fees payable by the Group (Note 4). There is no movement of the provision during the year other than unrealised exchange difference.

	The Company			The Group	
	31 December 2013 RMB'000	31 December 2012 RMB'000 (restated)	1 January 2012 RMB'000	**31 December 2013 RMB'000**	31 December 2012 RMB'000
At beginning of year	**6,038**	–	–	**6,038**	–
Provision made during the year	**–**	6,038	–	**–**	6,038
Exchange realignment	**(691)**	–	–	**(691)**	–
At end of year	**5,347**	6,038	–	**5,347**	6,038

15 Accruals and other payables (Cont'd)

The restatement at the Company level was made as the provision for compensation to distributors of RMB21,850,000 and provision for minimum guaranteed royalty of RMB6,038,000 were recorded at the Group level but was erroneously omitted at the Company level even though these contracts were entered into between the Company, the distributors and Goodyear. The effect of the restatement was as follows:

The Company	2012 As previously reported RMB'000	2012 As restated RMB'000
Statement of financial position		
Accruals and other payables	8,660	36,548
- Provision for compensation to distributors (Notes 4 and 15)	–	21,850
- Provision for minimum guaranteed royalty (Notes 4 and 15)	–	6,038
	–	27,888
Retained earnings/(Accumulated losses) (Note 13)	13,236	(14,652)

Accruals and other payables are denominated in the following currencies:

	The Company			The Group	
	31 December 2013 RMB'000	31 December 2012 RMB'000 (restated)	1 January 2012 RMB'000	**31 December 2013 RMB'000**	31 December 2012 RMB'000
Renminbi	**21,511**	30,510	5,673	**17,632**	27,806
Hong Kong Dollar	**–**	–	–	**–**	12
United States Dollar	**5,347**	6,038	721	**5,347**	6,038
	26,858	36,548	6,394	**22,979**	33,856

16 Compensation payables

The Group	**2013 RMB'000**	2012 RMB'000
Due not later than one year	**17,400**	–
Due later than one year and not later than five years	**69,730**	–
	87,130	–

As announced by the Company on 9 June 2013, the Company's wholly–owned subsidiary, Fujian Qianfeng Textile Technology Co., Ltd ("Fujian Qianfeng") has received claims from customers for delivered products that allegedly failed to meet customers' specified requirements. Fujian Qianfeng had on 30 August 2013 entered into settlement agreements with its customers. According to the terms of the settlement agreements, the cash compensation will be RMB 300 million and remaining balance may be utilised by the customers to deduct from future sales. The cash compensation of RMB 300 million had been settled by end of September 2013.

The Group recorded compensation claims amounting to RMB 424.58 million as an expense in profit or loss for the year after several negotiations over the terms of the settlement agreements. These compensation claims had either been paid and/or fully provided for in the financial statements of the Group as at 31 December 2013.

Subsequent to the financial year end, Fujian Qianfeng was served with notices of arbitration on 10 March 2014 by the customers. The dispute between Fujian Qianfeng and the customers arose in relation to the settlement agreements entered into by Fujian Qianfeng with the customers, under which the remaining amount of compensation to the customers will be settled by way of the provision of products by Fujian Qianfeng to the customers. The customers had alleged that Fujian Qianfeng had breached the terms of the settlement agreements by not fulfilling their obligations in the provision of products.

16 Compensation payables (Cont'd)

On 13 March 2014, the Fuzhou Arbitration Centre in the PRC confirmed that the terms of the settlement agreements were valid and enforceable, and affirmed that Fujian Qianfeng was required to provide the remaining balance of compensation to the customers by way of the provision of products over the period of sixty months. The company appointed Dacheng Law Offices in the PRC to review the arbitration proceedings and provide advice to the Board of Directors of the Company. On 15 April 2014, Dacheng Law Offices opined that the settlement agreements are legal and enforceable, the Fuzhou Arbitration Centre's confirmation of the settlement agreements is legal and in accordance with the laws in the PRC and that the claimants cannot make any other claims against the Group provided the terms and conditions of the arbitration commission's confirmation have been complied with.

The compensation payable, which is not an extended credit, does not bear interest over the repayment terms of sixty months and is not pledged with any assets of the Group.

The movements in compensation payables were as follows:

The Group	**2013 RMB'000**	2012 RMB'000
At beginning of year	**–**	–
Provision for compensation to claimants	**424,580**	–
Amounts paid	**(300,000)**	–
	124,580	–
Set-off against trade receivables of claimants	**(37,450)**	–
At end of year	**87,130**	–

Reconciliation of compensation payable (1 January 2014 – 13 March 2014):

The Group	RMB'000
At 1 January 2014	87,130
Future sales after year end	(630)
At 13 March 2014 (Fuzhou Arbitration Centre's confirmation)	86,500

17 Amount due to director/shareholder

The amount due to director/shareholder relates to payment on behalf by the director/shareholder. The amount due to director/shareholder is denominated in Renminbi, unsecured, interest–free and has no repayment terms.

18 Bank loans

The bank loans are denominated in Renminbi 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 7.8% (2012 –7.37%) per annum.

19 Other operating expenses

The Group	Note	**2013 RMB'000**	2012 RMB'000
Provision for compensation to customers	16	**424,580**	–
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
		424,580	49,696

20 Finance costs

The Group	2013 RMB'000	2012 RMB'000
Interest on bank loans	**2,155**	2,500

21 Loss before taxation

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

The Group	Note	2013 RMB'000	2012 RMB'000
Depreciation of property, plant and equipment	5	**8,327**	11,683
Amortisation of land use rights	6	**182**	181
Loss on disposal of property, plant and equipment		**–**	158
Cost of inventories included in cost of sales		**132,913**	180,964
Product prototype costs		**–**	6,549
Research and development expenses		**2,683**	1,906
Staff costs	22	**20,523**	25,858
Compensation expenses	16	**424,580**	–
Reversal of provision for compensation to distributor	15	**(11,562)**	–

22 Staff costs

The Group	2013 RMB'000	2012 RMB'000
Key management personnel		
- Directors		
- salaries and related costs	**1,990**	1,987
- employer's contributions to defined contribution plans	**10**	–
- Executive officers		
- salaries and related costs	**1,943**	1,180
- employer's contributions to defined contribution plans	**25**	21
Other than key management personnel		
- salaries and related costs	**14,928**	20,882
- employer's contributions to defined contribution plans	**1,627**	1,788
Total staff costs	**20,523**	25,858

23 Income tax expense

The Group	2013 RMB'000	2012 RMB'000
Current tax expense	**1,228**	136

23 Income tax expense (Cont'd)

Reconciliation of effective tax rate

The Group	2013 RMB'000	2012 RMB'000
Loss before taxation	**(419,731)**	(95,512)
Tax calculated at tax rate of 25%	**(104,933)**	(23,878)
Effect of tax rates in foreign jurisdictions	**–**	531
Effect of preferential tax rates	**–**	326
Tax effect on non–taxable income	**(2,816)**	–
Tax effect on non–deductible expenses	**1,776**	1,944
Deferred tax asset on losses not recognised	**107,201**	21,213
	1,228	136

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% (2012 –16.5%). It has no taxable income for the years ended 31 December 2013 and 2012.

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 tax rate of 25% (2012: 24% and 12%, respectively).

The Group has not recognised a deferred tax asset in respect of tax losses of RMB428.8 million (2012 – RMB24.521 million) 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.

The unrecognised tax losses will expire as follows:

The Group	2013 RMB'000	2012 RMB'000
Year 2017	**–**	24,521
Year 2018	**103,701**	–
	103,701	24,521

No deferred tax has been provided as the certainty of recoverability cannot be reasonably assured.

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 2013 as payment of dividend, if any, can be controlled and it is probable that profits accumulated from 1 January 2008 will not be distributed in the foreseeable future.

24 Loss per share

The Group	2013 RMB'000	2012 RMB'000
Net loss attributable to owners of the Company (RMB'000) (A)	**(420,959)**	(95,648)
	Number of Shares	
Weighted average number of ordinary shares in issue for basic earnings per share (B)	**548,802,638**	548,802,638
Effect of dilutive potential ordinary shares – share option	**–**	–
Weighted average number of ordinary shares for diluted earnings per share (C)	**548,802,638**	548,802,638
Basic loss per share (fen) (A)/(B)	**(76.71)**	(17.43)
Diluted loss per share (fen) (A)/(C)	**(76,71)**	(17.43)

25 Capital commitments

The Group	2013 RMB'000	2012 RMB'000
Capital expenditure contracted but not provided for in the financial statements		
- purchase of commercial property in the PRC	**4,212**	4,212

The Group entered into an agreement with a third party to purchase one unit of commercial property for a consideration of RMB6,017,222. Deposit of RMB1,805,167 (2012 –RMB1,805,167) was paid during the year (Note 10). The commercial property is under construction as of the date of the financial statements.

26 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.

26 Operating segments (Cont'd)

The Group	Manufacturing 2013 RMB'000	Manufacturing 2012 RMB'000	Licenced store 2013 RMB'000	Licenced store 2012 RMB'000	Corporate 2013 RMB'000	Corporate 2012 RMB'000	Total 2013 RMB'000	Total 2012 RMB'000
Revenue								
External sales	**155,468**	167,962	**–**	5,982	**–**	–	**155,468**	173,944
Results								
Segment results	**(423,522)**	(52,969)	**–**	(39,441)	**(7,017)**	(3,088)	**(430,539)**	(95,498)
Interest income	**1,088**	1,904	**–**	–	**–**	–	**1,088**	1,904
Other income	**313**	218	**11,562**	364	**–**	–	**11,875**	582
Finance costs	**(2,155)**	(2,500)	**–**	–	**–**	–	**(2,155)**	(2,500)
Income tax expense	**(1,228)**	(136)	**–**	–	**–**	–	**(1,228)**	(136)
	(425,504)	(53,483)	**11,562**	(39,077)	**(7,017)**	(3,088)	**(420,959)**	(95,648)
Other information								
Segment assets	**148,191**	511,447	**–**	–	**143**	36	**148,334**	511,483
Total assets							**148,334**	511,483
Segment liabilities	**116,665**	22,679	**13,916**	27,888	**6,725**	1,709	**137,306**	52,276
Total liabilities							**147,851**	90,041
Capital expenditure	**485**	6,232	**–**	–	**–**	–	**485**	6,232
Depreciation of property, plant and equipment	**8,327**	11,683	**–**	–	**–**	–	**8,327**	11,683
Amortization	**182**	181	**–**	–	**–**	–	**182**	181
Inventory written off	**–**	–	**–**	11,673	**–**	–	**–**	11,673
Impairment loss on property, plant and equipment	**–**	22,500	**–**	–	**–**	–	**–**	22,500
Provision for compensation to customers	**424,580**	–	**–**	–	**–**		**424,580**	–
Provision for compensation to distributors	**–**	–	**–**	21,850	**–**	–	**–**	21,850
Reversal of provision for compensation to distributors	**–**	–	**(11,562)**	–	**–**	–	**(11,562)**	–
Provision for minimum guaranteed royalty	**–**	–	**–**	5,346	**–**	–	**–**	5,346
Loss on disposal of property, plant and equipment	**–**	158	**–**	–	**–**	–	**–**	158

26 Operating segments (Cont'd)

Business segments (Cont'd)

Reconciliation of reportable segments' liabilities to total liabilities:

The Group	2013 RMB'000	2012 RMB'000
Segment liabilities	**137,306**	52,276
Bank loans	**9,363**	37,765
Tax payable	**1,182**	–
	147,851	90,041

Geographical information

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

Licenced Store segment

As disclosed in Note 4, the agreement with Goodyear was terminated on 4 February 2013. In addition no retail stores nor any significant assets were established. The directors are of the view that operations of the sale of garments under the trademark licence of Goodyear do not constitute a separate cash generating unit of the Group nor qualify as a discontinued operation as it does not represent a separate major line of business of operations of the Group nor have any significant assets in which this segment operates. This is because the revenue, loss from operations (after excluding exceptional items such as provision for compensation to distributors and minimum guaranteed royalty and one–time inventory write off) and assets from this segment for the financial year ended 31 December 2012 contributes less than 10% to the Group's revenue, profit or loss and assets. Consequently, the presentation and disclosures under FRS 105 Non–current assets held for sale and discontinued operations were not required nor considered necessary.

27 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.

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

(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 receivables and bank balances.

Bank balances

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

Trade receivables

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

There was no concentration of credit risk with respect to trade receivables as the Group has a wide customer base of over 100 customers. None of the Group's customers accounted for 10% or more of the Group's trade receivables as at 31 December 2013.

As part of the terms and conditions of the settlement agreements stated in Note 16, the Group exposes to total trade sales of RMB 87,130,000 with certain customers for the next five years for which all such sales will be recognised as a deduction against compensation payables.

The Group's exposure to credit risks is influenced mainly by the individual characteristics of each customer. The Group typically gives the existing customers credit terms of 90 days (2012 – 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	**2013** **RMB'000**	2012 RMB'000
Not past due	**63,829**	50,234
Past due less than 30 days	**3,808**	–
Past due 31–120 days	**–**	–
	67,637	50,234

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

(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 is dependent on the shareholders of the Company and the provision of loans of up to RMB 100 million by the CEO of the Company on the funding of the operation of the Group. Refer to Note 2 on going concern for further details of liquidity requirements.

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 2013					
Trade payables	**24,496**	**24,496**	**24,496**	**–**	**–**
Accruals and other payables	**22,979**	**22,979**	**22,979**	**–**	**–**
Compensation payables	**87,130**	**87,130**	**17,400**	**69,730**	**–**
Amount due to director/ shareholder	**2,701**	**2,701**	**2,701**	**–**	**–**
Bank loans	**9,363**	**9,363**	**7,766**	**1,597**	**–**
	146,669	**146,669**	**75,342**	**71,327**	**–**
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	–
The Company					
At 31 December 2013					
Accruals and other payables	**26,858**	**26,858**	**26,858**	**–**	**–**
Amount due to director/ shareholder	**2,701**	**2,701**	**2,701**	**–**	**–**
	29,559	**29,559**	**29,559**		
At 31 December 2012					
Accruals and other payables	36,548	36,548	36,548	–	–
	36,548	36,548	36,548	–	–

27 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 RMB9,957,000 (2012 – RMB379,168,000) and RMB7,000,000 (2012 – RMB34,594,000), 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 (2012 –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 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 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 2013				
Variable rate bank balances	**50**	**(50)**	**50**	**(50)**
Variable rate bank loan	**(35)**	**35**	**(35)**	**35**
	15	**(15)**	**15**	**(15)**
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)

(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.

27 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 before tax Increase/ (decrease) RMB'000	Equity Increase/ (decrease) RMB'000	Loss before tax Increase/ (decrease) RMB'000	Equity Increase/ (decrease) RMB'000
31 December 2013				
SGD against RMB				
- strengthened	**7**	**7**	**7**	**7**
- weakened	**(7)**	**(7)**	**(7)**	**(7)**
HKD against RMB				
- strengthened	**22**	**22**	**–**	**–**
- weakened	**(22)**	**(22)**	**–**	**–**
USD against RMB				
- strengthened	**(239)**	**(239)**	**(267)**	**(267)**
- weakened	**239**	**239**	**267**	**267**
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)	(302)	(302)
- weakened	251	251	302	302

(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.

27 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 payables, accruals and other payables, compensation payables and amount due to director/shareholder) 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 2013	31 December 2012	**31 December 2013**	31 December 2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Financial assets:				
Cash and cash equivalents	**137**	36	**9,986**	379,243
Trade receivables	**–**	–	**67,637**	50,234
Other receivables	**–**	–	**485**	375
	137	36	**78,108**	429,852
Financial liabilities:				
Trade payables	**–**	–	**24,496**	18,420
Accruals and other payables	**26,858**	36,548	**22,979**	33,856
Compensation payables	**–**	–	**87,130**	–
Amount due to director/shareholder	**2,701**	–	**2,701**	–
Bank loans	**–**	–	**9,363**	37,765
	29,559	36,548	**146,669**	90,041

28 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.

28 Capital management (Cont'd)

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

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

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

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

The Group	**2013** **RMB'000**	2012 RMB'000
Total borrowings	**9,363**	37,765
Less: Cash and cash equivalents	**(9,986)**	(379,243)
Net cash	**(623)**	(341,478)
Total equity	**483**	421,442
Less: Statutory reserve	**(45,303)**	(45,303)
Adjusted capital	**(44,820)**	376,139
Net debt-to-adjusted-capital ratio	**NA#**	NA#

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

29 Subsequent events

(a) The Group has announced that the Company has entered into a sale and purchase agreement (the "SPA") between the Company as purchaser and China Construction Material Holdings Limited as vendor on 3 January 2014 in connection with the acquisition of 100% of the share capital of China Construction Material (Hong Kong) Limited. The considerations for the proposed acquisition are:

(i) the issuance of share capital of the Company equivalent to the amount of RMB 50,000,000 based on the volume weighted average price for trades done on the Singapore Exchange Securities Trading Limited in respect of the shares of the Company for the latest sixty market days preceding the date of the SPA; and

(ii) cash payment of RMB 50,000,000 according to agreed schedule as follow:

a. RMB 25,000,000 on 3 January 2015

b. RMB 25,000,000 on 3 January 2016

(b) Subsequent to the financial year end, the Company's wholly–owned subsidiary, Fujian Qianfeng Textile Technology Co., Ltd ("Fujian Qianfeng") was served with notices of arbitration on 10 March 2014 by the customers. The dispute between Fujian Qianfeng and the customers arose in relation to the settlement agreements entered into by Fujian Qianfeng with the customers, under which the remaining amount of compensation to the customers will be settled by way of the provision of products by Fujian Qianfeng to the customers. The customers had alleged that Fujian Qianfeng had breached the terms of the settlement agreements by not fulfilling their obligations in the provision of products.

(c) On 13 March 2014, Fuzhou Arbitration Centre in the PRC confirmed that the terms of the settlement agreements were valid and enforceable, and affirmed that Fujian Qianfeng was required to provide the remaining balance of compensation to the customers by way of the provision of products over the period of sixty months.

(d) On 15 April 2014, Dacheng Law Offices opined that the settlement agreements are legal and enforceable, the arbitration commission's confirmation of the settlement agreements is legal and in accordance with law and that the claimants cannot make any other claims against the Group provided the terms and conditions of the arbitration commission's confirmation have been complied with.

29 Subsequent events (Cont'd)

(e) On 23 April 2014, the CEO executed an irrevocable letter of undertaking for discharge of debts governed by PRC law in favour of the Company to provide financial support to the Company of an amount of up to RMB 100 million. In connection thereto, the CEO had also on the same date executed a mortgage, governed by the PRC laws, over four of his properties in Fuzhou city in the Fujian province - PRC which are estimated to be worth above an aggregate of RMB 120 million, as security for the irrevocable undertaking.

Statistics of Shareholdings

As at 2 May 2014

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

As at 2 May 2014, the Company did not hold any treasury shares.

DISTRIBUTION OF SHAREHOLDINGS

SIZE OF SHAREHOLDINGS	NO. OF SHAREHOLDERS	%	NO. OF SHARES	%
1 - 999	0	0.00	0	0.00
1,000 - 10,000	138	44.95	444,077	0.08
10,001 - 1,000,000	152	49.51	19,122,000	3.48
1,000,001 AND ABOVE	17	5.54	529,236,561	96.44
TOTAL	**307**	**100.00**	**548,802,638**	**100.00**

TWENTY LARGEST SHAREHOLDERS

NO.	NAME	NO. OF SHARES	%
1	PHILLIP SECURITIES PTE LTD	323,887,020	59.02
2	DBS VICKERS SECURITIES (SINGAPORE) PTE LTD	88,457,490	16.12
3	HL BANK NOMINEES (SINGAPORE) PTE LTD	33,831,051	6.16
4	OCBC SECURITIES PRIVATE LIMITED	20,291,000	3.70
5	HONG LEONG FINANCE NOMINEES PTE LTD	10,736,000	1.96
6	ZHOU CHEN	10,071,000	1.84
7	LIM BOON GUAN	10,000,000	1.82
8	RAFFLES NOMINEES (PTE) LIMITED	6,930,000	1.26
9	CITIBANK NOMINEES SINGAPORE PTE LTD	4,994,000	0.91
10	CHAN LAI HUNG JOSEPHINE	4,682,000	0.85
11	PNG CHENG HENG EDWIN	3,900,000	0.71
12	UOB KAY HIAN PRIVATE LIMITED	3,652,000	0.67
13	GOLDEN TRUST TRADING PTE LTD	2,181,000	0.40
14	DMG & PARTNERS SECURITIES PTE LTD	1,900,000	0.35
15	TAN HOO KIA	1,438,000	0.26
16	LIM PENG LIANG DAVID LLEWELLYN	1,204,000	0.22
17	ZHANG SHU	1,082,000	0.20
18	LILY THIAN SIEW EIE	980,000	0.18
19	NG PEI ENG (HUANG PEIYING)	980,000	0.18
20	SONG KAH KEONG JEROME	980,000	0.18
	TOTAL	**532,176,561**	**96.99**

Statistics of Shareholdings

As at 2 May 2014

SUBSTANTIAL SHAREHOLDERS

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

Notes:

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

(2) Qian Feng Group Limited is an investment holding company incorporated in the BVI and is held by Mr Lin Daoqin (60.0%) and Mdm Lin Xiujin (40.0%).

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

(4) The shares held by Asia Brand Capital Pte. Ltd. ("Asia Brand") are registered in the name of DBS Vickers Securities Nominees Pte. Ltd.

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

PERCENTAGE OF SHAREHOLDING IN PUBLIC'S HANDS

As at 2 May 2014, 39.51% of the Company's shares are held in the hands of public. Accordingly, the Company has complied with Rule 723 of the Listing Manual of the SGX-ST which requires 10% of the equity securities (excluding preference shares and convertible equity securities) in a class that is listed to be in the hands of the public.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Asia Fashion Holdings Limited ("the Company") will be held at Anson II Room, Level 2, M Hotel, 81 Anson Road Singapore 079908 on Friday, 30 May 2014 at 2.00 p.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 2013 together with the Auditors' Report thereon. **(Resolution 1)**

2. To re-elect the following Directors of the Company who is retiring pursuant to Bye-law 85(6) of the Byelaws of the Company:

   Mr Neo Chee Beng **(Resolution 2)**
   Mr Yuan Limin **(Resolution 3)**
   Mr Teo Kean Eek **(Resolution 4)**
   Mr Kwok Wei Woon (Guo Weiwen) **(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 2014, to be paid quarterly in arrears. (2013: S$150,000) **(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

Ng Poh Khoon
Company Secretary
Singapore, 14 May 2014

Explanatory Notes:

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

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

Mr Kwok Wei Woon (Guo Weiwen) will, upon re-election as a Director of the Company, remain as Chairman of the Audit Committee, a member of the Remuneration 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.

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ASIA FASHION
亚洲时尚