CHINA TRENDS HOLDINGS LIMITED
中國趨勢控股有限公司

(incorporated in the Cayman Islands with limited liability)
(Stock Code: 8171)

MAJOR DEVELOPMENTS SINCE THE TRADE SUSPENSION IN SHARES

At the request of the Company, trading in the Shares on the Stock Exchange was suspended from 9:30 a.m. on 1 April 2009 pending the release of an announcement by the Company in relation to the annual results of the Group for the year ended 31 December 2008. Since the suspension of the trading in the Shares on 1 April 2009, the Company has been liaising closely with the Stock Exchange with an aim to restore trading in the Shares. During the process, the Stock Exchange has raised concerns on the 2008 Qualified Opinion made by the Auditors, the Group's internal control system and the operating and financial positions of the Group. Trading in the Shares remained suspended pending the release of this announcement.

The purpose of this announcement is to set out, inter alia, information relating to the actions taken or to be taken by the Company to address the concerns raised in the 2008 Qualified Opinion for the information of the potential investors and Shareholders.

Trading in the Shares will continue to remain suspended pending the release of an announcement in relation to a major transaction of the Company regarding acquisition of copyrights and trademark.

MAJOR DEVELOPMENTS SINCE THE TRADE SUSPENSION IN SHARES

Since the suspension of the trading in the Shares on 1 April 2009, the Company has been liaising closely with the Stock Exchange with an aim to restore trading in the Shares. During the process, the Stock Exchange has raised concerns on (i) the 2008 Qualified Opinion made by the Auditors; (ii) the Group's internal control system; and (iii) the operating and financial positions of the Group. The purpose of this announcement is to set out, inter alia, information relating to the actions taken or to be taken by the Company to address the concerns raised in the 2008 Qualified Opinion for the information of the potential investors and Shareholders.

2008 Qualified Opinion and the Reasons for the Incident

Reference is made to the annual report issued by the Company for the year ended 31 December 2008. The qualifications made by the Auditors in the annual report of the Company were due to the lack of certain books and records in the Subsidiaries and the limited supporting evidence available to the Auditors.

It is the internal policy of the Group that each of the Subsidiaries is required to provide its quarterly management accounts to the Company for the preparation of the consolidated financial statements. In each of the first three quarters of 2008, the management of the Subsidiaries provided the management accounts of the Subsidiaries to the Company for the said purpose. The interim consolidated financial statements of the Group for the six months ended 30 June 2008 had been audited by the Auditors, with an unqualified auditors' report, for internal reference of the Board.

In December 2008, the Group noticed that when most of the former directors of the Subsidiaries left the Group, the former directors did not directly deliver the books and records of the Subsidiaries to the Company. After a cheque in the amount of HK$5 million issued by a Subsidiary to the Company has been dishonoured upon presentation to the bank in early December 2008, the Company discussed and consulted with the legal advisers the control over the Subsidiaries and the collection of all the books and records from the former directors of the Subsidiaries.

In early December 2008, the Company removed Mr. Cao Weiyin ("**Mr. Cao**"), the then director of all of the Subsidiaries which are incorporated in the British Virgin Islands (the "**BVI Subsidiaries**") and nominated and appointed Mr. Qiu Peng ("**Mr. Qiu**") as a director in each of the BVI Subsidiaries by shareholders' resolutions. The Company also sent a legal letter demanding the return of the books and records to the former directors of the Subsidiaries in late December 2008. Given the difficulty in retrieving the missing documents, lack of co-operation from the former directors of the Subsidiaries in providing the missing documents and information relating to the Subsidiaries and to carry on its business in a prudent manner, the Group has since not conducted any business through the Subsidiaries. The Directors decided to conduct similar businesses undertaken by the Subsidiaries through another subsidiary of the Company.

There of the Subsidiaries are incorporated in Hong Kong ("**Hong Kong Subsidiaries**"). Mr. Cao resigned as a director of each of the Hong Kong Subsidiaries and Ms. Chen Shengli ("**Ms. Chen**") has been nominated and appointed as a director of each of the Hong Kong Subsidiaries on 22 December 2008. All the relevant books and records of the Subsidiaries were released by Mr. Cao to Ms. Chen directly.

In or about March 2009, when the Auditors conducted the annual audit on the financial statements of the Group for the year ended 31 December 2008. The Group realised that it has only recovered some of the books and records from the former directors of the Subsidiaries and there were still certain missing books and records, including the information in relation to the contract works in progress.

After repeated enquiries to resolve the issues raised by the Auditors and the request for the return of certain books and records made by the Company, Ms. Chen resigned as a director of each of the Hong Kong Subsidiaries in mid-March 2009. Ms. Chen agreed in writing to release all relevant books and records of the Hong Kong Subsidiaries to the Company.

In early April 2009, Mr. Qiu resigned as a director of each of the BVI Subsidiaries to put more time and effort to pursue his own business for personal reasons. The Company then nominated and appointed Mr. Li Yan Lei as the sole director of the Subsidiaries afterwards.

The Company enquired about the missing books and records of the Subsidiaries in an attempt to locate the missing documents and the Company also contacted such former director(s) through their legal advisers a number of times in an effort to retrieve such documents. The Company was notified by the former director(s) of the Subsidiaries in early May 2009 that some of the documents were in the custody of the PRC legal advisers of a former director of the Subsidiaries. Certain of such documents have been retrieved in mid-May 2009, while a number of documents remained outstanding. As at the date of this announcement, the Company is still pursuing the former director(s) of the Subsidiaries for the outstanding books and records of the Subsidiaries.

The Directors considered that the major reason for the Incident was due to the lack of co-operation and unhelpfulness of the former directors of the Subsidiaries in providing the missing documents and information.

Mainly due to the missing of such corporate documents, the consolidated financial statements of the Company for the year ended 31 December 2008 were qualified by the Auditors. For further details of the qualifications and the reasons thereof, please refer to the annual report of the Company for the year ended 31 December 2008.

In order to avoid the occurrence of similar events in the future the Company has adopted the following measures:

TIGHTENING OF CONTROL OVER SUBSIDIARIES

1) Suspension of business operations of the Subsidiaries – the Subsidiaries have ceased their business operations in January 2009 and the current business of the Group is carried out by Pacific Vision, a subsidiary set up in mid-December 2008 for the purpose of taking up the business of the Group. Such arrangement will minimise the risk of the Subsidiaries in handling any business transactions, as the Subsidiaries had uncertain financial positions. As the Group does not have in possession any customer list of the Subsidiaries, Pacific Vision has not conducted any business with any of the previous customers of the Subsidiaries and there are no common customers between Pacific Vision and the Subsidiaries.

2) Monthly report to the Board – the Company has nominated and appointed Mr. Li Yan Lei, a project manager of the Company, as the sole director of the Subsidiaries who will report directly to the Board on a monthly basis. As the Group is preparing the Disposal and the Subsidiaries have ceased their business operations since January 2009, the Board considers that there is no reason to appoint more director(s).

3) Books and records kept at principal place of business of the Company – to avoid similar incident in the loss of books and records of the subsidiaries in the future, all books and records of the subsidiaries of the Company are now directly kept and recorded at the principal place of business of the Company in Hong Kong. All the books and records in its original form are not allowed to be taken out of the Company's office without proper authorization from the Board.

4) Common directors – as the Group is preparing the Disposal, the Company has not nominated and appointed any common director between the Company and the Subsidiaries. The Board has nominated at least one Director for all other subsidiaries (including Pacific Vision) and will nominate and appoint at least one Director to each of the new subsidiaries to be formed in the future to improve their internal control systems to safeguard the Company's investment and the Group's assets. In the event the Disposal does not proceed to completion, the Board will consider nominating and appointing at least one Director to each company in the Subsidiaries.

5) Change of authorised signatories in bank accounts – the Group has already formally requested all the banks of the Subsidiaries to change the authorised signatories in the respective accounts signing jointly by any two of (i) Mr. Li Yan Lei; and (ii) any of the executive Directors excluding Mr. Yang Gaocai. All of the banks of the Subsidiaries have acknowledged and effected the change in authorised signatories.

6) The approval of the Board will be required for any notifiable transactions and connected transactions pursuant to Chapters 19 and 20 of the GEM Listing Rules to be entered into by the subsidiaries of the Company.

7) Although any director of the subsidiaries of the Company will be authorised to enter into daily operating transactions and approve the expenditures of the respective subsidiaries, the signing arrangement of the bank accounts in the subsidiaries has to be operated by two authorized personnel which included at least one executive Director of the Company.

The Directors consider that the above arrangements will be sufficient to minimise the risk of reoccurrence of the Incident and to ensure that the daily operations of the subsidiaries of the Company will not be adversely affected.

THE OPERATIONS OF THE SUBSIDIARIES

The Group is principally engaged in sales and marketing of mobile phone appliances and the relevant parts solution. The consolidated revenue of the Subsidiaries for each of the two years ended 31 December 2008 and the six months ended 30 June 2009 were approximately HK$380,523,000, approximately HK$78,500,000 and approximately HK$1,700,000 respectively. The loss of certain books and records in the Subsidiaries did not have any immediate impact to the current operational and financial positions of the Company because the Directors decided to conduct similar businesses undertaken by such Subsidiaries through another subsidiary of the Company since December 2008. According to the unaudited consolidated financial statements of the Group prepared under the Hong Kong accounting standards, for the six months ended 30 June 2009, the revenue of approximately HK$25,027,000 was generated by a subsidiary of the Company other than the Subsidiaries.

The last sale invoice of the Subsidiaries in the amount of approximately HK$1,700,000 originated by the ex-director of the Subsidiaries was delivered to a customer in mid-January 2009 but the customer has not settled the outstanding payment since late April 2009. In preparation of the interim result for the six months ended 30 June 2009, the Directors considered that there was recoverability problem of the outstanding amount due from the customer and did not recognize this as a sales. The corresponding amount was written off by the Directors as an impairment of inventory directly. The Auditors considered that the recoverability of the outstanding amount from the customer should be assessed separately from revenue recognition. The Auditors further considered that if there is any collectability problem on the recovery of the amount outstanding from the customer, the Company may consider to make an impairment on the amount receivable of approximately HK$1,700,000. The Company accepts the advices from the Auditors and will recognise the sales of approximately HK$1,700,000 with the corresponding amount impaired in subsequent preparation of the financial statements.

In addition to the cessation in the business operations of the Subsidiaries by conducting similar businesses through another subsidiary of the Company, the Directors consider that the very substantial acquisition (of which the approval from the Shareholders was granted at the extraordinary general meeting of the Company held on 12 June 2009, but is subject to the Listing Committee of the Stock Exchange granting listing of and permission to deal in the conversion shares for the transaction), represents a good opportunity for the Group to expand into the optoelectronic, media and advertisement publication business. For further details of the acquisition and the reasons thereof, please refer to the circular of the Company dated 26 May 2009.

REPORT TO AUDIT COMMITTEE

The Board had submitted a detailed report to the audit committee of the Company in respect of the 2008 Qualified Opinion. The report has highlighted the issues of the 2008 Qualified Opinion and provided in details the improved policies and procedures being implemented by the Company. The Board considered that the improved policies and procedures being implemented by the Company are sufficient to avoid the occurrence of similar events in the future. The Board will review periodically on the feasibility of such improved policies and procedures. The audit committee of the Company has accepted the report in respect of the 2008 Qualified Opinion and has agreed with the views of the Board. The audit committee also agreed with the findings from the Board that leading to the Incident.

INTERNAL CONTROL REVIEW

In order to alleviate the concerns of the Stock Exchange and provide comfort to the Shareholders, in July 2009, the Company has commissioned the Auditors:

1) to review the Company's current internal control systems in order to assist the Directors to determine whether the Company and its subsidiaries, excluding the Subsidiaries, have in place the financial reporting and compliance systems which are adequate to enable the Company to meet its obligations under the GEM Listing Rules; and

2) to make recommendations on any measures which, in the opinion of the Auditors, the Company and its subsidiaries, excluding the Subsidiaries, should take in order to rectify any material weaknesses which have been identified in the Group's systems and procedures.

In view of the non-accessibility of the books and records in the Subsidiaries and the intention of the Company to dispose of the entire interest in the Subsidiaries in due course, the internal control review will not cover the Subsidiaries except for matters arising from general observation by the Auditors during the course of their review.

The review conducted by the Auditors is in accordance with the "Internal Control Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission in the United States in 1992 with reference to "Internal Control and Risk Management – A Basic Framework" issued by Hong Kong Institute of Certified Public Accountants in June 2005. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying other review procedures. The Company has been taking various steps to comply with the recommendations set out in the internal control review report. In order to assist the Directors to assess the Company's internal control system on the procedures adopted and implemented by the Company after incorporating the recommendations made by the Auditors, the Company further commissioned the Auditors to carry out a follow up review which has been completed in mid-October 2009.

As the Subsidiaries have ceased their business operations and the Subsidiaries will no longer be subsidiaries of the Company upon completion of the Disposal, the Incident should not reoccur in the future. The 2008 Qualified Opinion in relation to the Incident will still be present in the consolidated financial statements of the Company for the year ending 31 December 2009 as the opening balance for the year ending 31 December 2009. In the event the Disposal does not proceed to completion, certain items of the 2008 Qualified Opinion will reappear in subsequent financial statements of the Group.

The audit committee agreed to exclude the Subsidiaries from the internal control review because there are still certain missing books and records relating to the Subsidiaries and the Auditors cannot conduct an internal control review on the Subsidiaries.

Findings made by the Auditors

A summary of the findings together with the risk assessment on the internal control system of the Group as referred to the internal control review report dated 13 October 2009 from the Auditors is set out as follows:

		Risk level assessed by the Auditors
1)	No common directors – there are no common directors among the Company and some of the subsidiaries of the Company. The lack of common directors in the Company and its subsidiaries may increase the possibility of control risks whereby the Company may be more remote in exercising its control over the safeguarding of the Company's investment in subsidiaries and the protection of the Group's assets. In addition, the corporate strategies and directions as determined by the Company from time to time may not be fully executed by the subsidiaries. It may also create communication problems and increase the possibility for events like the non-accessibility of the Company to the books and records.	High
2)	No internal audit department – the Group has not formally established an internal audit department to monitor and assess the quality of internal control of the Group because in the opinion of the Directors, the structure and operation of the Group are simple and approvals on most of the business transactions have to be sought from the Directors before execution. The internal control function is now mainly headed by the Directors directly with the assistance by each of the department heads who would review and monitor the control activities of their respective departments.	Medium
3)	No crisis management team – the Group has not formally established a "crisis management team" to determine how risks and crisis should be managed by the Group. However, the management of the Group, mainly comprising the Directors, a legal counsel, a qualified accountant, and relevant responsible officers of the Company, will handle and evaluate each of the potential crises. They will also respond directly to manage any potential risks and crisis on the basis that, when such risks and crisis crystallize in the near future, the Directors or the relevant management will respond and cope with such risks/crisis. However, it was noted that there is no proper documentation in the internal control manual of the composition of the "crisis management team" and the minutes for each of the meeting held.	Low

		Risk level assessed by the Auditors
4)	Change of authorised signatories for bank accounts – it was noted that despite the Company has appointed a director to the Subsidiaries for some time; the changes in authorised signatories for the bank accounts maintained by the Subsidiaries have not been completed up to the date of this report. The non-changes of bank signatories create control risk whereby the bank accounts could be misappropriated by the ex-director(s) of the Subsidiaries and the Company may not be able to protect and safeguard of the Group's assets. The Company should establish procedures to handle and update the changes in authorised signatories of the Group whenever there are any changes in the management in order to avoid the possibility of mis-appropriation of assets of the Group by the leaving staff and to ensure that all assets of the Group are under control.	High
5)	Lack of formal hand over procedures – subsequent to the change of directorship in the Subsidiaries since December 2008, it was noted that the Company did not have formal hand over procedures with the ex-directors that has led to the subsequent non-accessibility by the Company to the books and records and other documents of the Subsidiaries. The Company should have a hand over procedure established for properly transfer of keys, company chops and other important documents kept by each of the management members so as to reduce the possibility of the loss of keys, company chops or important documents subsequent to the departure of those management.	High
6)	No physical count and inspection of assets – subsequent to the change in directorship in the Subsidiaries since December 2008, it was noted that the Company did not perform physical count and inspection on the fixed assets, contract work in progress and other assets held by the Subsidiaries up to the date of this report.	High
7)	No impairment policy on trade receivables – the Group does not have formal procedure for the impairment review of trade receivables (i.e. provision for bad and doubtful debts).	Medium
8)	No stamping of "paid" chop – it is not clear that the invoices have been settled or not as the Group did not have any indication on the original invoice after payment was made. The Group does not stamp a "paid" chop together with the payment details on the original purchases invoices to avoid duplicate payment.	Low

		Risk level assessed by the Auditors
9)	Lack of documents as to how services providers were selected – the Company has a formal procedure for assessment and selection of service suppliers in the operating manual. However, there is lacking of documentations as to how the services providers were selected.	Low
10)	Lack of formal written documentation for authorisation for addition of fixed assets – the Company does not have any formal written documentation in respect of authorisation for the addition of fixed assets.	Low
11)	No capital expenditure budget – the Company did not prepare capital expenditure budget for addition of the fixed assets.	Low
12)	Lack of formal procedure or policy for disposal and written off of fixed assets – there is no formal procedure or policy for disposal or written off of fixed assets.	Medium
13)	Missing bank statements not replaced – subsequent to the change in directorship in the Subsidiaries in December 2008, the Group noticed that there are some missing bank statements. However, the Group had not requested the banks to re-issue all those missing bank statements for review and follow up for any irregularities, if any.	Medium
14)	No segregation of duties for keeping books of account and maintaining the petty cash – keeping the proper books of account and maintaining the petty cash are all being carried out by the same accounting officer. There is no segregation of duties although the cash amount is only HK$500.	Low
15)	No written summary of list of connected parties – the Group requires each of the Directors to declare their interests in each of the related party transactions whenever there are such kinds of transactions. However, the Group does not maintain a written summary list to record who are the related parties.	Medium
16)	No clear classifications of connected party transactions in management accounts – there are no clear classifications of the connected party transactions in the management accounts of the Group.	Medium
17)	Budgeting – the Group has prepared working capital forecast on a monthly basis supplement by the weekly report on cash flow for comparison and analysis. In the opinion of the Directors, the monthly expenses incurred by the Company are rather stable and thus, there is no need to have an annual budgeting system.	Low
18)	No impairment policy on inventories – the Group does not have formal procedure for impairment review of inventories (i.e. slow moving goods or obsolete goods).	Medium

Although certain of the findings on the internal control weaknesses are associated with high risk assessment, the Auditors consider that they would not have any significant immediate threat to the Group's operation based on the representation from the Board that all the companies in the Subsidiaries have ceased their business operations and the Auditors has carried out the follow up review that the Company has taken remedial measures on the procedures adopted by the Company as mentioned in the following section of this announcement to avoid events similar to the incident leading to the loss of books and records.

Recommendations made by the Auditors

A summary of the recommendations made by the Auditors on the internal control system of the Group is set out as follows:

1) Common directors – the Company is suggested to appoint at least one Director to sit on the board of its subsidiaries to execute the monitoring function for and on behalf of the Company and to ensure the execution of the corporate strategies and directions as determined by the Company from time to time;

2) Establishment of an internal audit department – the Company should re-assess the need for establishing an internal audit department;

3) Crisis management team – the Company is recommended to have a proper documentation in the internal control manual with the composition of a "crisis management team" and records of the minutes for each of the meetings held;

4) Change of authorised signatories for bank accounts – all authorised signatories of bank accounts for the Subsidiaries should be changed to, and controlled by the common director or the designated persons of the Company immediately;

5) Change of authorised signatures and hand-over of documents – the Company should set up formal procedures and guidelines to change all authorised signatures and hand-over of assets, books and records and all important documents of the group companies whenever there is any changes in management;

6) Inspection on assets – the Company should perform a due diligence and regular physical count and inspection on assets held by the companies of the Group;

7) Setting up an impairment policy on trade receivables – the Company should set up an impairment policy on trade receivables. The finance department should prepare an aging report on trade and other receivables on monthly basis and review and assess based on the aging reports and other relevant information if there is any impairment. Based on the impairment assessment performed by the finance department, the sales department should be informed of the results and the executive in charge of the account should follow up the collectability of the receivables;

8) Stamping of “paid” chop – the Group should stamp a “paid” chop on the original invoices to signify payment and to avoid duplication of payment;

9) Documentation of the process of assessment and selection of suppliers – the Group should document the process of assessment and selection of suppliers in the master file, including the quotation, the selection report, the review and approval by appropriate staff, etc.;

10) Fixed assets requisition form – the Company should establish a fixed assets requisition form for documentation on the application and authorisation of the acquisition of fixed assets;

11) Establishment of capital expenditure budget – the Company should establish a capital expenditure budget for documentation on the application and authorisation of the acquisition of fixed assets;

12) Establishment of formal procedure or policy for disposal/written off of fixed assets – the Company should establish a formal procedure or policy for disposal/written off of fixed assets. All fixed assets disposal or written off should be properly approved by the Board;

13) Missing bank statements – the Company should request all relevant banks to re-issue the missing bank statements of the Subsidiaries and the management has to review the transactions for any irregularities;

14) Segregation of duties between the cashier and book-keeper – segregation of duties between the cashier and book-keeper should be maintained in order to have a better control on the treasury;

15) Connected parties – all Directors should declare their corresponding connected parties on a periodic or annual basis;

16) Connected transactions – a list of the connected parties should be maintained and updated by the finance department and approved by the Directors from time to time whenever there are any updates. The Company is recommended to prepare a monthly summary list to record all connected party transactions. The Company should design and modify the chart of accounts to facilitate the tracing of connected party transactions;

17) Annual budgeting system – the Group should develop an annual budgeting system. Each department of the Group should prepare its own annual budget which will then be consolidated and analysed by the finance department;

18) Establishment of formal procedure for the impairment review of inventory – the Group should establish formal procedure for the impairment review of inventory.

Procedures adopted and implemented by the Company

In light of the recommendation of the internal control and risk assessment reviewed and made by the Auditors, the Company adopted and implemented the following procedures.

1) Common directors – the Board has nominated at least one Director for all subsidiaries (including Pacific Vision) other than the Subsidiaries;

2) Crisis management team – the internal control manual has been updated to incorporate the Auditors' recommendation on documentation of "crisis management" with record of the meetings held;

3) Change of authorised signatories for bank accounts – the Company has changed the authorized signatories for all the bank accounts of the Subsidiaries. Starting from the application for the change of authorized signatories in the bank accounts of the Subsidiaries, all payment by the Subsidiaries through the banks would be withheld until confirmation from executive Director(s) of the Company. The management has properly followed up with the banks to safeguard the assets of the Group;

4) Change of authorised signatures and hand-over of documents – the Company has set up formal procedures and guidelines to change all authorised signatures and hand-over of assets, books and records and all important documents of the group companies whenever there is any changes in management;

5) Inspection on assets – other than the Subsidiaries, the Company has performed a full count of assets of the Group on a monthly basis to make sure that all accountable assets of the Company were recorded. Besides, the Company has also recorded all identifiable assets of the Group into an assets register for proper safeguarding and accountability;

6) Setting up an impairment policy on trade receivables – the Company has set up an impairment policy on trade receivables and for insertion into the internal control procedure manual. The Company would also prepare an aging report on all receivables monthly to review and assess based on the aging reports and other relevant information if any impairment is required;

7) Stamping of "paid" chop – the Company has adopted the recommendation to put the "paid" chop on the original invoices after payment;

8) Documentation of the process of assessment and selection of suppliers – the Group has documented the process of assessment and selection of suppliers in the master file;

9) Establishment of fixed assets requisition form and capital expenditure budget – the Company has established a fixed assets requisition form to document the authorisation for the acquisition of fixed assets. Besides, the Company will prepare capital expenditure budget for substantial addition of the fixed assets annually;

10) Establishment a formal procedure or policy for disposal/written off of fixed assets – the Company has established a formal procedure or policy for disposal/written off of fixed assets. All fixed assets disposal or written off should be properly approved by the Board;

11) Missing bank statements – the Company has obtained most of missing bank statements of the Subsidiaries and the management is in the process of reviewing the relevant transactions;

12) Segregation of duties between the cashier and book-keeper – the Company has implemented the segregation of duties between the cashier and book-keeper to have a better control on the treasury;

13) Connected transactions – the Company has adopted the annual declaration of connected parties by the Directors and maintain a summary list of connected parties in the master file which would be updated from time to time. The Company has also modified the chart of accounts in its accounting system to facilitate the tracing of connected party transactions;

14) Annual budgeting system – the finance department and the Directors are reviewing the bank balances of the Company and the subsidiaries weekly. The Company will establish the annual budget system for the year of 2010;

15) Establishment of formal procedure for the impairment review of inventory – other than the Subsidiaries, the Group has established a formal procedure for the impairment review of inventory.

Procedures not yet adopted and implemented by the Company

1) Common directors – the Company has appointed Mr. Li Yan Lei as the sole director of all the companies in the Subsidiaries who is reporting directly to the Directors on a monthly basis and the Board has nominated at least one Director for all other subsidiaries (including Pacific Vision). In the event the Disposal does not proceed to completion, the Board will consider nominating and appointing at least one Director to each company in the Subsidiaries; and

2) Establishment of an internal audit department – the establishment of an internal audit department as recommended by the Auditors will inevitably incur extra amount of cost for the Group, which the Board considers not to be cost effective for the time being. As such, the Group did not adopt the recommendation on the establishment of an internal audit department as set out in the internal control review report for the time being. The Board will review periodically on the feasibility of such requirement to the Group. The audit committee of the Company has agreed with the views of the Board.

The Board has accepted and implemented the recommendations from the Auditors and considers that they do not have any significant immediate threat to the Group's operation because existing remedial measures are sufficient to prevent events similar to the incident of mishandling of corporate documents from recurring. The Board has reviewed the internal control policies of the Group. The Directors consider that the matters of the 2008 Qualified Opinion relates to the mishandling of corporate documents by former director(s) of the Subsidiaries. Prior to their resignation, such former director(s) were some of the most senior personnel of the relevant Subsidiaries who had the access to such corporate documents. This individual separate incident of mishandling of corporate documents cannot be prevented even with tightened internal control procedures. However, to avoid similar incidents in the future, all books and records of the subsidiaries of the Company are now being kept at the principal place of business of the Company in Hong Kong. To further enhance the accountability of the subsidiaries to the Company, members of the Board have been appointed as directors of all subsidiaries (excluding the Subsidiaries) of the Company. The Board considers that (i) the corporate structure of the Group is simple and does not have a large amount of staff; and (ii) all the recommendations by the Auditors in the internal control review report will be sufficient for the Company to avoid similar incident on the loss of books and records of the subsidiaries in the future.

The operations of the Group was conducted based on the internal control procedures as set out in the internal control manual of the Group. The Board considers that the current internal control procedures together with all recommendations (excluding the establishment of an internal audit department) accepted and adopted by the Company are sufficient for the operation of the Group to prevent events similar to the incident of mishandling of corporate documents from recurring. The Board considers that the Company has an adequate and effective internal control system for the Group's operation.

After carrying out the follow up review completed in mid-October 2009, the Auditors are satisfied that except for the nomination of common director in the Subsidiaries and the establishment of an internal audit department, their recommendations to the internal control system as mentioned in "Recommendations made by the Auditors" in this announcement have been adopted and implemented by the Company and the internal control weaknesses as identified by the Auditors have been rectified. The Auditors consider that, after full implementation of the recommendations made by the Auditors, the existing internal control system of the Company will be sufficient to prevent the Incident from recurring.

The Company has provided a copy of the internal control review report to the audit committee of the Company. After reviewing the internal control review report, the audit committee of the Company has accepted the recommendations of the Auditors which the Board has accepted and adopted. The audit committee considers that, based on the current internal control procedures, the recommendations made by the Auditors as accepted and adopted by the Company and the follow up review by the Auditors on the procedures adopted and implemented by the Company after incorporating the recommendations made by the Auditors, the Group has an adequate and effective internal control system to address the internal control weaknesses associated with the incident leading to the loss of books and records.

SUSPENSION OF TRADING

At the request of the Company, trading in the Shares on the Stock Exchange was suspended from 9:30 a.m. on 1 April 2009 pending the release of an announcement by the Company in relation to the annual results of the Group for the year ended 31 December 2008. Since the suspension of the trading in the Shares on 1 April 2009, the Company has been liaising closely with the Stock Exchange with an aim to restore trading in the Shares. During the process, the Stock Exchange has raised concerns on the 2008 Qualified Opinion, the Group's internal control system and the operating and financial positions of the Group. Trading in the Shares remained suspended pending the release of this announcement.

Trading in the Shares will continue to remain suspended pending the release of an announcement in relation to a major transaction of the Company regarding acquisition of copyrights and trademark.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following expressions shall have the following meanings when used herein:

"2008 Qualified Opinion"	the qualifications made by the Auditors on the financial statements of the Company for the year ended 31 December 2008
"Auditors"	Cachet Certified Public Accountants Limited, the auditors of the Company
"Board"	the board of Directors
"Company"	China Trends Holdings Limited, a company incorporated in the Cayman Islands with limited liability and the issued Shares of which are listed on GEM
"Directors"	the directors of the Company
"Disposal"	the disposal of its entire interests in the Subsidiaries to a potential distressed assets buyer, details of which is set out in the announcement of the Company dated 14 August 2009 and the circular of the Company date 22 December 2009
"GEM"	the Growth Enterprise Market of the Stock Exchange
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"Incident"	the loss of books and records of the Subsidiaries resulting in the 2008 Qualified Opinion

"Pacific Vision"	Pacific Vision Technologies Limited, an indirect wholly owned subsidiary of the Company
"Share(s)"	ordinary share(s) of HK$0.01 each in the capital of the Company
"Shareholder(s)"	Holder(s) of the Share(s)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subsidiaries"	Ace Solution Technology Limited and its subsidiaries
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong

By the order of the Board
China Trends Holdings Limited
Xiang Xin
Chairman

Hong Kong, 23 December 2009

As at the date of this announcement, the executive Directors are Mr. Xiang Xin, Mr. Yang Gaocai, Mr. Wong Chak Keung and Mr. Law Gerald Edwin and the independent non-executive Directors are Mr. Zhang Zhan Liang, Ms. Lu Yuhe and Mr. Kwok Chi Hung.

This announcement, for which the Directors collectively and individually accept full responsibilities, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this announcement is accurate and complete in all material aspects and not misleading; (ii) there are no other matters the omission of which would make any statement in this announcement misleading; and (iii) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumption that are fair and reasonable.

This announcement will remain on GEM website on the "Latest Company Announcements" page for at least 7 days from the date of its posting and the Company website at www.8171.com.hk.