

*First Quarterly Report* **2010**

江晨國際控股有限公司  
**Jiangchen International Holdings Limited**

*(Incorporated in the Cayman Islands with limited liability)*

*(Stock Code: 08305)*

## **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)**

**GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.**

**Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.**

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This report, for which the directors (the “Directors”) of Jiangchen International Holdings Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM (the “GEM Listing Rules”) 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 report is accurate and complete in all material respects and not misleading;
- (ii) there are no other matters the omission of which would make any statement in this report misleading; and
- (iii) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

As at the date of this report, the board of Directors (the “Board”) comprises two executive Directors, namely Mr. Cai Shuiyong and Mr. Cai Shuiping; and three independent non-executive Directors, namely Mr. Lin Anqing, Ms. Lin Peifen and Mr. Liu Jianlin.

**FINANCIAL HIGHLIGHTS**

- The shares of the Company were listed on GEM on 8 October 2009.
- Revenue for the three months ended 31 March 2010 amounting to RMB42.9 million (2009: RMB35.5 million), representing an increase of 20.8% as compared with corresponding periods in 2009.
- Profits attributable to owners of the Company for the three months ended 31 March 2010 amounted to RMB5.0 million (2009: RMB4.6 million), representing an increase of 8.7% as compared with corresponding periods in 2009.
- Basic earnings per share for the three months ended 31 March 2010 amounted to RMB0.014 (2009: RMB0.012).
- The Directors do not recommend the payment of an interim dividend for the three months ended 31 March 2010.

## UNAUDITED RESULTS

The Board of the Company is pleased to announce the following unaudited consolidated results of the Company and its subsidiaries (hereafter collectively referred to as the "Group") for the three months ended 31 March 2010 together with comparative audited consolidated figures for the corresponding periods in 2009.

### CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	For the three months ended 31 March	
		2010 RMB'000 (Unaudited)	2009 RMB'000 (Audited)
Turnover	3	<b>42,930</b>	35,500
Cost of sales		<b>(35,861)</b>	(30,426)
Gross profit		<b>7,069</b>	5,074
Other operating income	4	<b>4</b>	24
Selling and distribution costs		<b>(160)</b>	(161)
Administrative expenses		<b>(1,097)</b>	(303)
Finance costs	5	<b>(18)</b>	(60)
Profit before tax	6	<b>5,798</b>	4,574
Income tax expense	7	<b>(791)</b>	–
Profit and total comprehensive income for the period		<b>5,007</b>	4,574
Profit and total comprehensive income attributable to:			
Owners of the Company		<b>5,015</b>	4,574
Non-controlling interests		<b>(8)</b>	–
		<b>5,007</b>	4,574
Earnings per share	8		
– Basic		<b>RMB0.014</b>	RMB0.012
– Diluted		<b>RMB0.014</b>	RMB0.012

Notes:

### 1. BASIS OF PREPARATION

The unaudited consolidated results of the Group for the three months ended 31 March 2010 have been prepared in accordance with the accounting principles generally accepted in Hong Kong and comply with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the applicable disclosure requirements of the GEM Listing Rules.

### 2. PRINCIPAL ACCOUNTING POLICIES

The accounting policies used in the preparation of these results are consistent with those used in the preparation of the Group's annual financial statements for the year ended 31 December 2009.

### 3. TURNOVER AND SEGMENT INFORMATION

Turnover represents the net amounts received and receivable for goods sold in the normal course of business, net of discounts and sales related taxes.

The Group's turnover and profit during the period are mainly derived from manufacturing and wholesaling of apparels, whose operating results are reviewed regularly by the Group's Chief Executive Officer to make decisions about resources to be allocated to the segment and assess its performance. Accordingly, there is only one operating segment for the Group.

The Group's revenue from external customers by geographical location are detailed below:

	For the three months ended 31 March	
	2010 RMB'000 (Unaudited)	2009 RMB'000 (Audited)
Hong Kong	1,947	3,278
The People's Republic of China (the "PRC") (excluding Hong Kong)	40,983	30,196
Others	–	2,026
	<b>42,930</b>	<b>35,500</b>

An analysis of segment assets and capital expenditure by geographical area in which the assets are located has not been presented as the Group's assets are substantially located in the PRC.

### 4. OTHER OPERATING INCOME

	For the three months ended 31 March	
	2010 RMB'000 (Unaudited)	2009 RMB'000 (Audited)
Bank interest income	4	24

## 5. FINANCE COSTS

	For the three months ended 31 March	
	2010 RMB'000 (Unaudited)	2009 RMB'000 (Audited)
Interest on bank borrowings wholly repayable within one year	<b>18</b>	60

## 6. PROFIT BEFORE TAX

	For the three months ended 31 March	
	2010 RMB'000 (Unaudited)	2009 RMB'000 (Audited)
Profit before tax has been arrived at after charging:		
Directors' emoluments	<b>42</b>	16
Other staff costs	<b>5,158</b>	4,175
Retirement benefits scheme contributions, excluding directors' emoluments	<b>1,361</b>	763
Total staff costs	<b>6,561</b>	4,954
Amortisation of prepaid lease payments	<b>40</b>	12
Cost of inventories recognised	<b>35,861</b>	30,426
Depreciation of property, plant and equipment	<b>189</b>	130
Exchange loss	<b>12</b>	7
Operating lease rental paid in respect of rented premises	<b>19</b>	66

## 7. INCOME TAX EXPENSE

Hong Kong Profits Tax has not been provided for as there were no assessable profits derived from Hong Kong for the three months ended 31 March 2010 and 2009.

Pursuant to the laws and regulations of the Cayman Islands and the British Virgin Islands ("BVI"), the Group is not subject to any income tax in the Cayman Islands and BVI.

Pursuant to the relevant laws and regulations in the PRC, the Group's PRC subsidiaries are exempted from PRC Enterprise Income Tax for two years starting from their first profit-making year, followed by a 50% reduction for the next three years. The first profit-making year of the PRC subsidiaries is 2008. Accordingly, the PRC subsidiaries are exempted from PRC Enterprise Income Tax from 1 January 2008 to 31 December 2009 and are entitled to a 50% exemption of income tax from 1 January 2010 to 31 December 2012.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

## 8. EARNINGS PER SHARE

The calculation of basic earnings per share for the three months ended 31 March 2010 is based on the profit attributable to owners of the Company of approximately RMB5,015,000 (2009: RMB4,574,000) and the weighted average number of shares in issue during the period of 370,000,000 (2009: 370,000,000). The weighted average number of shares in issue during the three months ended 31 March 2009 is based on the assumption that 370,000,000 shares of the Company were in issue as if the shares issued at the date the Company became the holding company of the Group were outstanding throughout the period.

The diluted earnings per share are the same as the basic earnings per share for the three months ended 31 March 2010 and 2009 as there is no effect of dilutive potential ordinary shares.

## 9. INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the three months ended 31 March 2010 (2009: nil).

## 10. RESERVES

	Attributable to owners of the Company					Total RMB'000
	Share Premium RMB'000	Capital reserve RMB'000	Statutory reserves RMB'000	Other reserves RMB'000	Retained earnings RMB'000	
At 1 January 2009 (audited)	–	10	1,027	–	9,247	10,284
Total comprehensive income for the period	–	–	–	–	4,574	4,574
At 31 March 2009 (audited)	–	10	1,027	–	13,821	14,858
At 1 January 2010 (audited)	10,642	10	2,661	19,697	23,315	56,325
Total comprehensive income for the period	–	–	–	–	5,015	5,015
Acquisition of additional interests in a subsidiary from non-controlling shareholder ( <i>Note 11(c)</i> )	–	–	–	(1,659)	–	(1,659)
At 31 March 2010 (unaudited)	10,642	10	2,661	18,038	28,330	59,681

## 11. RELATED PARTY TRANSACTIONS

- (a) During the period, the Group entered into the following transactions with related parties:

	<b>For the three months ended 31 March</b>	
	<b>2010 RMB'000 (Unaudited)</b>	<b>2009 RMB'000 (Audited)</b>
Jiangxi Hongfeng Textile Company Limited (江西泓峰紡織有限公司) ("Hongfeng Textile") (Note 1)		
– rental expense incurred	–	36
Mr. Tsoi Kam On (蔡金鉸) (Note 2)		
– rental expense incurred	<b>7</b>	<b>12</b>

*Notes:*

- Hongfeng Textile was a company in which Mr. Cai Shuiyong and Mr. Cai Shuiping, the executive Directors and substantial shareholders of the Company, had beneficial interests. Hongfeng Textile was combined into the Group since March 2009.
  - Mr. Tsoi Kam On (蔡金鉸) is the brother of Mr. Cai Shuiyong.
- (b) The remuneration of Directors and other members of key management during the period was as follows:

	<b>For the three months ended 31 March</b>	
	<b>2010 RMB'000 (Unaudited)</b>	<b>2009 RMB'000 (Audited)</b>
Salaries and other allowances	<b>41</b>	15
Retirement benefits scheme contributions	<b>1</b>	1
	<b>42</b>	<b>16</b>

- (c) Acquisition of 30% remaining equity interests in Hongfeng Textile

As mentioned in the announcement and circular issued by the Company dated 23 December 2009 and 13 January 2010 respectively, Sino Prosper (Asia) Limited ("Sino Prosper"), a wholly-owned subsidiary of the Company, conditionally entered into Equity Transfer Agreement II on 23 December 2009 with Hong Feng International Holdings Limited ("Hong Feng International"), a company owned by Mr. Cai Shuiyong and Mr. Cai Shuiping as to 50% each. Pursuant to the agreement, Sino Prosper agreed to purchase from and Hong Feng International agreed to dispose of 30% remaining equity interests in Hongfeng Textile for a consideration in cash of approximately RMB3.5 million. On 28 January 2010, approval of the acquisition was obtained from the independent shareholders in an extraordinary general meeting. The acquisition was completed on 5 March 2010 and Hongfeng Textile became a wholly-owned subsidiary of the Group.



## MANAGEMENT DISCUSSION AND ANALYSIS

### Business review

The Group is principally engaged in the manufacturing and wholesaling of apparels on an original equipment manufacturing ("OEM") basis. The OEM products of the Group are mainly sold to domestic import and export companies and overseas trading companies for export. The Group is also engaged in the manufacturing and wholesaling of apparels that are designed by the Group to domestic distributors for sales in the PRC. Since March 2008, the Group has established a wholesale outlet in Wannian county, Jiangxi province for marketing and sales of products designed by the Company using "e號倉庫" as its brand name. In June 2009, the Group has acquired a trademark "珍珠泉" at a consideration of RMB15,000 from an independent third party. The products produced by the Group can be broadly categorised into cotton and sweat jacket, sportswear and leisurewear, trousers and children garment.

### Financial review

#### *Revenue*

The Group's revenue for the three months ended 31 March 2010 increased by 20.8% to approximately RMB42.9 million as compared to that of approximately RMB35.5 million for the three months ended 31 March 2009.

The increase in the Group's revenue was mainly attributable to the increase in demand of the Company's products and the continuous effort of the Group's sales team in developing the domestic sales. The aggregate revenue from the domestic sales for the three months ended 31 March 2010 increased to RMB41.0 million, representing an increase of approximately 35.7% as compared to the corresponding period in 2009.

#### *Gross profit*

The Group achieved a gross profit of approximately RMB7.1 million for the three months ended 31 March 2010, representing an increase of approximately 39.2% as compared to that for the three months ended 31 March 2009. The gross profit margin for the three months ended 31 March 2010 amounted to 16.5% (2009: 14.3%). The increase in gross profit margin in 2010 was mainly attributable to the decrease in raw materials costs and a higher percentage of domestic sales which have a better gross profit margin.

#### *Profit attributable to owners of the Company*

The profit attributable to owners of the Company increased by approximately 8.7% from approximately RMB4.6 million for the three months ended 31 March 2009 to approximately RMB5.0 million for the three months ended 31 March 2010.

### Outlook

The shares of the Company were listed on GEM on 8 October 2009 (the "Listing Date"). As disclosed in the prospectus (the "Prospectus") of the Company dated 29 September 2009, it is the Group's objective to become one of the major budget apparel manufacturers and wholesalers in the PRC by expanding the wholesales business into the rural areas in the PRC, which the Directors consider there are promising potentials for the Company's products.

Leveraging on the experience of the Company's management team in the apparel industry, the Company will enhance the product design capacity by establishing a research and development department for new product designs to cater different target customers. Besides, the research and development department will also conduct research on latest trend and market demand on production materials and review the manufacturing processes with a view to improve the productivity with reduced wastage and better quality control.

In addition, in accordance with the corporate development strategies as disclosed in the Prospectus, the Group will continue to increase its production capacities by establishing new production facilities with an annual production capacity of approximately 2,500,000 pieces of apparels per annum.

Besides, the Group will expand the distribution base and market coverage by establishing twenty outlets in Fujian province, Jiangxi province, Zhejiang province and Guangxi province in the PRC by 31 December 2011 for sales and marketing of the Company's designed products.

## INTERESTS AND SHORT POSITIONS OF THE DIRECTORS AND CHIEF EXECUTIVE IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 March 2010, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were notified to the Company and the Stock Exchange, pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which were required, pursuant to Rule 5.46 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

### (i) Long position in shares of the Company

Name of Director	Number of ordinary shares			Total	Percentage of issued share capital
	Personal interests	Family interests	Corporate interests		
Mr. Cai Shuiyong	–	–	259,000,000 <sup>(1)</sup>	259,000,000	70.0%
Mr. Cai Shuiping	–	–	259,000,000 <sup>(1)</sup>	259,000,000	70.0%

Note:

- These shares are owned by Well Bright Group Limited ("Well Bright") which is owned 50% by Mr. Cai Shuiyong and 50% by Mr. Cai Shuiping. Therefore, each of Mr. Cai Shuiyong and Mr. Cai Shuiping is deemed to be interested in 259,000,000 shares held by Well Bright Group Limited under the SFO.

### (ii) Long position in ordinary shares of associated corporation

Name of Director	Name of associated corporation	Capacity/Nature	Number of securities held	Percentage of shareholding
Mr. Cai Shuiyong	Well Bright	Beneficial owner	1	50%
Mr. Cai Shuiping	Well Bright	Beneficial owner	1	50%

Save as disclosed above, as at 31 March 2010, none of the Directors and chief executives of the Company had any interests or short positions in any shares, underlying shares and debenture of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the registered required to be kept by the Company pursuant to Section 352 of the SFO, or which were required, pursuant to Rule 5.46 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

## INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 March 2010, so far as is known to the Directors and taking no account of the shares to be issued pursuant to options which may be granted under the share option scheme (as defined below), the following persons (other than the Directors or chief executive of the Company), who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company in accordance with the provision of Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein, were as follows:

### Long position in shares of the Company

Name	Capacity	Nature of interest	Number of ordinary shares	Percentage of issued share capital
Well Bright Group Limited	Beneficial owner	259,000,000	259,000,000	70.0%
Ms. Cai Shuyan	Interest of spouse	259,000,000 <sup>(1)</sup>	259,000,000	70.0%
Ms. Sun Meige	Interest of spouse	259,000,000 <sup>(2)</sup>	259,000,000	70.0%

#### Notes:

1. Mr. Cai Shuiyong beneficially owned 50% of Well Bright and Well Bright held 259,000,000 shares of the Company. Ms. Cai Shuyan is the spouse of Mr. Cai Shuiyong. Therefore, Ms. Cai Shuyan is deemed to be interested in all shares of the Company held by Mr. Cai Shuiyong.
2. Mr. Cai Shuiping beneficially owned 50% of Well Bright and Well Bright held 259,000,000 shares of the Company. Ms. Sun Meige is the spouse of Mr. Cai Shuiping. Therefore, Ms. Sun Meige is deemed to be interest in all shares of the Company held by Mr. Cai Shuiping.

Save as disclosed above, as at 31 March 2010, the Directors were not aware of any persons (who were not Directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein.

## DIVIDEND

The Directors do not recommend the payment of an interim dividend for the three months ended 31 March 2010 (2009: Nil) and there is no closure of the register of members accordingly.

## SHARE OPTION SCHEME

The Company has adopted a share option scheme ("Share Option Scheme") on 15 September 2009. A summary of the principle terms and conditions of the share option scheme are set out in the section headed "Share Option Scheme" in Appendix V of the Prospectus. Since the Share Option Scheme has become effective upon the Company's listing on GEM, no share options were granted, exercised or cancelled by the Company under the Share Option Scheme during the period under review and there were no outstanding share options under the Share Option Scheme as at 31 March 2010.

## PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any listed shares of the Company during the three months ended 31 March 2010.

## CODE ON CORPORATE GOVERNANCE PRACTICE

The Company has complied with the code provisions of the Code on Corporate Governance Practice set out in Appendix 15 of the GEM Listing Rules for the three months ended 31 March 2010, save for the derivations from code provision A.2.1.

## **COMPETITION AND CONFLICT OF INTEREST**

Save as disclosed in the Prospectus, none of the Directors, the management shareholders or substantial shareholders of the Company or any of its respective associates has engaged in any business that competes or may compete, either directly or indirectly, with the businesses of the Group, as defined in the GEM Listing Rules, or has any other conflict of interests with the Group during the three months ended 31 March 2010.

## **REMUNERATION COMMITTEE**

The Company established a remuneration committee in September 2009 with written terms of reference in compliance with the Code on Corporate Governance Practices set out in Appendix 15 of the GEM Listing Rules. The primary duties of the remuneration committee are, amongst other things, to review and determine the terms of remuneration packages, bonuses and other compensation payable to our Directors and senior management and to make recommendation to our Board on our Group's policy and structure for all remuneration of our Directors and senior management. The remuneration committee comprises one executive Director, namely, Mr. Cai Shuiyong and two independent non-executive Directors, namely Mr. Lin Anqing and Ms. Lin Peifen. Mr. Cai Shuiyong has been appointed as the chairman of the remuneration committee.

## **NOMINATION COMMITTEE**

The Company established a nomination committee in September 2009 with written terms of reference in compliance with the Code on Corporate Governance Practices set out in Appendix 15 of the GEM Listing Rules. The principal duties of the nomination committee are to identify and nominate suitable candidates for the appointment of the Directors and make recommendations to the Board on succession planning for the Directors. The nomination committee comprises one executive Director, namely Mr. Cai Shuiyong and two independent non-executive Directors namely Mr. Lin Anqing and Ms. Lin Peifen. Mr. Cai Shuiyong has been appointed as the chairman of the nomination committee.

## **AUDIT COMMITTEE**

The Company established an audit committee in September 2009 with written terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules. The primary duties of the audit committee are, among other things, to review and supervise the financial reporting process and internal control system of our Group. The audit committee has three members comprising our three independent non-executive Directors, namely Mr. Liu Jianlin, Mr. Lin Anqing and Ms. Lin Peifen. Mr. Liu Jianlin has been appointed as the chairman of the audit committee.

The Group's unaudited condensed consolidated results for the three months ended 31 March 2010 have been reviewed by the audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

## **COMPLIANCE ADVISOR'S INTEREST**

Pursuant to the compliance advisor's agreement entered into between the Company and Evolution Watterson Securities Limited ("Evolution Watterson"), Evolution Watterson has been appointed as the compliance advisor of the Company for the period commencing from the Listing Date and ending on the date on which the Company complies with Rules 18.03 of the GEM Listing Rules in respect of the Company's financial results for the second full financial year commencing after the Listing Date in accordance with the GEM Listing Rules subject to the terms and conditions of the compliance advisor's agreement.

As notified by Evolution Watterson, none of Evolution Watterson, its directors, employees or associates had any interests in the securities of the Company or any member of the Group or any right to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group as at 31 March 2010.

## **DIRECTORS' SECURITIES TRANSACTIONS**

The Company has adopted the required standard of dealings set out in rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct regarding Director's securities transactions in shares of the Company. Having made specific enquiry of all Directors, each of the Directors confirm that they have complied with the required standard of dealings and the code of conduct regarding securities transactions by the Directors for the three months ended 31 March 2010.

By order of the Board  
**Jiangchen International Holdings Limited**  
**Cai Shuiyong**  
*Chairman and Executive Director*

The PRC, 10 May 2010