年報 2012

Annual Report

中國服飾控股有限公司
CHINA OUTFITTERS HOLDINGS LIMITED

Stock Code: 1146
Incorporated in the Cayman Islands
with limited liability

Contents

Corporate Information

EXECUTIVE DIRECTORS

Mr. LO Peter *(Chairman)*
Mr. ZHANG Yongli *(Chief Executive Officer)*
Mr. SUN David Lee
Ms. HUANG Xiaoyun *(Chief Financial Officer)*

NON-EXECUTIVE DIRECTORS

Mr. LI Guoqiang
Mr. WANG Wei

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. KWONG Wilson Wai Sun
Mr. CUI Yi
Mr. YEUNG Chi Wai

COMPANY SECRETARY

Ms. LI Rita Yan Wing

AUTHORISED REPRESENTATIVES

Mr. LO Peter
Mr. SUN David Lee

AUDIT COMMITTEE

Mr. KWONG Wilson Wai Sun *(Chairman)*
Mr. CUI Yi
Mr. YEUNG Chi Wai

REMUNERATION COMMITTEE

Mr. CUI Yi *(Chairman)*
Mr. ZHANG Yongli
Mr. KWONG Wilson Wai Sun

NOMINATION COMMITTEE

Mr. LO Peter *(Chairman)*
Mr. YEUNG Chi Wai
Mr. KWONG Wilson Wai Sun

REGISTERED OFFICE

190 Elgin Avenue
George Town
Grand Cayman
KY1-9005
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 713, 7/F, East Ocean Centre
98 Granville Road
Tsim Sha Tsui East
Kowloon
Hong Kong

HEAD OFFICE IN THE PRC

No. 9 Lane 1225
Tong Pu Road
Pu Tuo District
Shanghai
PRC

WEBSITE

www.cohl.hk

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
26/F, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
China Merchants Bank, Hong Kong Branch

LEGAL ADVISER

Herbert Smith Freehills LLP

COMPLIANCE ADVISER

First Shanghai Capital Limited

INVESTOR RELATIONS

Hill and Knowlton Asia Limited

AUDITORS

Ernst & Young
Certified Public Accountants

Chairman's Statement

Dear Shareholders,

First of all, I would like to express my gratitude to every shareholder for their supports to China Outfitters Holdings Limited (the "Company"), especially through a period of unrest. In the previous year, it seemed that not a single piece of restful land could be found in the whole world. Both the developing and emerging countries have encountered bottlenecks in their developments. China, in the situation of globalization, would not be likely an exception, and at the same time, it needs to solve some problems arising from its reform and opening-up of over 30 years. The year 2012 witnessed the lowest economic growth of China since the beginning of the century. China's export was influenced by the global economic issues. As the Chinese government changed its development strategies by reducing the pro-activity in its fiscal and monetary policies, consumer sentiment was thus affected, and inevitably, leading to a slowdown in economic growth. The slowdown in market growth undoubtedly resulted in keen competition, including price war, among enterprises in order to maintain their market shares. As to sales, with upward pressure subsisting in labor and other costs, decrease in profit margin is expected to be a common phenomenon. However, the problem lies in the fact that sacrificing short-term profit in exchange for future development potential is not an explicit causal relationship. In particular, cutting price in exchange for increase in sales volume often ends up with a drop in brand value, which prevents the price to be restored to its original level, and in the worst case, continuous price cuts are required to keep up the sales volume. Hence, the Company is very cautious about its discount policy, in order to strike a balance among sales, brand value and future development. The Company managed to maintain a stable gross profit margin, which reflects the Company's value appreciation aspect in product sales, including brand value, and is also the Company's capacity against cost pressure. A company of low gross profit may lose its end profit amid any set-back in the market or a rise in costs; and may fail to realize the maximum profit margin even in a prosperous market. In addition to the impact of price and sales costs, the policy on provision for inventory is another factor directly affecting the gross profit of the Company. It is the Company's policy to have the value impaired of 50% for any goods remains unsold in one year and a half, and the remaining 50% value will be impaired if the good remains unsold in three years. This policy not only reflects the purchase and sale profile of the Company more quickly, but also urges the management to deal with the inventories as the gross profit margin and flexibility of inventory sales will be improved, while it can complement the rapid development of outlets in China. Moreover, if the market can be subdivided effectively, the competition will be relatively relieved. The multi-brand strategy of the Company aims to establish leading positions in various subdivided market, and to sustain its development while avoiding price competition.

The changes in retail channels also caught the eyes of all consumer goods companies. The opening-up and rapid development of China's real estate has a strong influence on the retail sector. The ever increasing in retail points bring the room of development for enterprises, but in a period of faster increase in the number of department store and shopping mall will, inevitably reduce the average population flow in each retail point and affect the growth of same store sales, which represents an increase in sale cost rate. Department stores are the major sales channels of the Company. Although the concession was calculated as a percentage point of sale amounts, the impact was relatively low. However, the sale cost should have increased accordingly as department stores held more promotion activities to attract more population flows. The retail channels in China is changing, from typical department stores, shopping malls, pedestrian malls, underground commercial districts to the newly-built shopping precincts, outlets and airports. Nowadays in China, new shopping points emerge in where there are population flows. I believe that the distribution of retail points in China will remain diversified, as different consumer groups tend to spend in retail points with different features. Consumer goods companies will need to enhance their operating capability. Strategies on product, brand, retail point and price should be precisely formulated and they should respond to market changes more quickly, otherwise, the cost will rise. On the other hand, e-commerce has become one of the mainstream consumption patterns. As online promotion and billing systems are proven, logistics is currently the key to the success. Retail enterprises used to await customers to come, but now they are reaching out for consumers in each household, this affects every aspect in the entire logistic system, such as packing, warehouse structure and transportation. The final journey in goods transportation costs the most. The cost and the time will also increase geometrically. For example, a shortening of the 50% delivery time may cause the cost to increase by more than 3 times. The infinite possibility in e-commerce business will also amplify the final journey to infinity, and at the same time, cutting down delivery time should be an essential measure in order to enhance competitiveness. Therefore, the development potential and risks of this business is highly challenging. Balancing is the context of the Company's operating philosophy, and it is anticipated that a multi-channel balance can be achieved through the deployment in retail points and channels.

Administrative cost is the last obstacle for operating profit. The Company is undergoing structural optimization to achieve cost saving. The cost will not grow proportionately but unreasonably as the sales amount increases. In 2012, the option-related expense significantly increased the Company's administrative cost, though it was of short term nature.

As China's economy is undergoing qualitative changes, all the enterprises need to make greater efforts to achieve desired performance. The Company will enhance its competence in all aspects to embrace this new economic era.

LO Peter
Chairman
27 March 2013

Management Discussion and Analysis

MARKET OVERVIEW

The global economy remained volatile in the year 2012. The economic recovery in the United States was losing steam, worry of economic collapse in the European Union ("EU") region resurfaced, the Japanese economic growth was essentially stalled and geopolitical risk in selected corners of the world have all added pressures to the already weak and fragile recovery of the world economy from the 2008 financial crisis and threaten a relapse that will again put the world economy right back into recession. At the same time, the PRC government continued to tighten its macro-control measures to unwind the aggressive monetary stimulus introduced right after the 2008 financial crisis, which gradually decelerated the rapid expansion of the Chinese economy. The complicated and ever-changing economic environment in the year 2012 posed huge challenge to China's economic growth. According to the National Bureau of Statistics of China ("NBSC"), the growth rate of China's nominal GDP growth declined in the year 2012 with a reported growth rate of 7.8%.

The slower economic growth also had a negative impact on the retail industry in which the Group operates. According to the NBSC, the total retail sales of consumer products rose 14.3% to RMB20.7 trillion in the year 2012. However, the growth rate was 2.8 percentage points lower than that in 2011. In particular, the growth rate of sale of apparel products by the top 100 key and large-scale retailers had decelerated significantly from 20.4% in 2011 to 12.3% in 2012, according to the National Commercial Information Center of China (CNCIC) (中華全國商業信息中心).

Notwithstanding the relatively tougher operating environment and the increasing competitive market place, the Group recorded revenue of RMB1,407.8 million in the year 2012 representing an increase of 12.8% as compared to that of the previous year; profit attributable to owners of the parent of RMB460.2 million, representing an increase of 12.7% as compared to that of the previous year.

FINANCIAL REVIEW

Revenue

We generate revenue from retail sales of our products to our end consumers, in most cases through self-operated retail points in department stores in major cities in the PRC, which we consider as our core markets, as well as from sales of our products to third-party retailers who directly manage concession counters and retail stores in other cities in the PRC, where we do not operate retail points. In 2012, the Group's revenue reached RMB1,407.8 million, representing an increase of RMB159.8 million, or approximately 12.8% as compared to that of RMB1,248.0 million in 2011.

Revenue from self-operated retail sales increased by RMB86.1 million, or 11.7%, from RMB736.4 million in 2011 to RMB822.5 million in 2012 and accounted for approximately 58.4% (2011: 59.0%) of the total revenue. The increase in revenue from self-operated retail points was primarily due to the increase in number of self-operated retail points from 475 at 31 December 2011 to 549 at 31 December 2012 and increase in sales from the ramp-up of the retail points we opened in 2011.

Revenue from sales to third-party retailers increased by RMB73.7 million, or 14.4%, from RMB511.6 million in 2011 to RMB585.3 million in 2012 and accounted for approximately 41.6% (2011: 41.0%) of the total revenue. The increase in revenue from third-party retailers was primarily attributable to the expansion in retail network by our third-party retailers. Retail points operated by our third-party retailers increased from 627 at 31 December 2011 to 763 at 31 December 2012.

Save for the continuous expansion of our sales network to 1,312 retail points at 31 December 2012, the increase in revenue was also attributable to our successful pricing strategy by increasing unit selling price through optimization of product mix.

By Sales Channel

The table below sets forth the breakdown of the Group's revenue contributed by sales made through our self-operated retail points and sales to third-party retailers:

	2012		2011	
	Revenue RMB' million	**% of total revenue**	Revenue RMB' million	% of total revenue
Self-operated retail sales	**822.5**	**58.4%**	736.4	59.0%
Sales to third-party retailers	**585.3**	**41.6%**	511.6	41.0%
Total	**1,407.8**	**100.0%**	1,248.0	100.0%

By Brand

Revenue contributed from self-owned brands accounted for approximately 5% to 6% of the total revenue for the both periods indicated. Revenue from our new brands London Fog and Jeep Lady, which were introduced into the PRC apparel market in 2009 and 2011, of the total revenue has been increased from 6.2% in 2011 to 8.4% in 2012.

The table below sets forth our revenue by licensed brands and self-owned brands:

	2012		2011	
	Revenue RMB' million	**% of total revenue**	Revenue RMB' million	% of total revenue
Licensed brands	**1,336.2**	**94.9%**	1,171.3	93.9%
Self-owned brands	**71.6**	**5.1%**	76.7	6.1%
Total	**1,407.8**	**100.0%**	1,248.0	100.0%

Cost of sales

Our cost of sales increased by RMB55.2 million, or approximately 18.5%, from RMB298.1 million in 2011 to RMB353.3 million in 2012. The increase in cost of sales was primarily due to the increase in inventory provision of RMB32.4 million from RMB46.7 million in 2011 to RMB79.1 million in 2012 and an increase in cost of products sold which was in line with the rising revenue in 2012.

Gross profit and gross profit margin

Our gross profit increased by RMB104.6 million, or approximately 11.0%, from RMB949.9 million in 2011 to RMB1,054.5 million in 2012. The decrease in our overall gross profit margin from 76.1% in 2011 to 74.9% in 2012 was mainly attributable to the increase in inventory provision as aforementioned.

Other income and gains, net

Our other income and gains increased by RMB19.4 million, or approximately 74.3%, from RMB26.1 million in 2011 to RMB45.5 million in 2012, primarily due to the receipt of subsidy income of RMB39.3 million (2011: RMB21.5 million) from the local government.

Selling and distribution costs

Our selling and distribution costs increased by RMB58.5 million, or approximately 15.2%, from RMB385.1 million in 2011 to RMB443.6 million in 2012.

Concession fees for occupying concession counters within department stores and department store charges continued to increase as more marketing and promotional activities were organised by department stores to boost sales during the year.

Labour costs relate to sales and marketing staff increased primarily due to the expansion in our self-operated retail network and the increase of salary levels for our sales and marketing staff.

Other selling and distribution costs, including royalty fees, advertising and promotion expenses, consumable and decoration fees increased in line with the revenue.

Administrative expenses

Our administrative expenses increased by RMB41.8 million, or approximately 124.4%, from RMB33.6 million in 2011 to RMB75.4 million in 2012, primarily due to (i) the adoption of a pre-IPO share option scheme on 9 December 2011 resulted in an increase in equity-settled share option expenses by RMB30.4 million from RMB1.5 million in 2011 to RMB31.9 million in 2012; (ii) the Directors entered into the service contracts with our Company in June 2011 and therefore the Directors' fees and emoluments increased to RMB5.6 million during the year (2011: RMB3.1 million); and (iii) increase in other administrative expenses such as depreciation and amortisation, taxes and surcharges, professional services fees and other operating expenses by RMB9.1 million primarily due to the expansion in operations.

Other expenses

Our other expenses decreased from RMB17.8 million in 2011 to RMB1.4 million in 2012 mainly due to the decrease in the one-off listing expenses of RMB17.8 million incurred in 2011.

Finance income

Our finance income increased to RMB45.4 million in 2012 as compared to that of RMB16.3 million in 2011, representing an increase of 178.5%, primarily because we continued to maintain a relatively strong cash position throughout 2012 as a result of the increase in cash flows from operating activities and the proceeds received from the IPO. The higher proportion of structured bank deposits in our cash and cash equivalents also contributed higher return than that of short-term bank deposits.

Profit before tax

As a result of the foregoing factors, our profit before tax increased by RMB69.2 million, or approximately 12.5%, from RMB555.8 million in 2011 to RMB625.0 million in 2012.

Income tax expense

Our income tax expense increased by RMB20.1 million, or approximately 13.9%, from RMB144.6 million in 2011 to RMB164.7 million in 2012 primarily due to the increase of profit before tax generated by our operating entities in the PRC. The effective income tax rate in 2012 was 26.4% (2011: 26.0%).

Profit for the year

Our profit for the year increased by RMB49.1 million, or approximately 11.9%, from RMB411.2 million in 2011 to RMB460.3 million in 2012. In addition, the net profit margin slightly decreased from 33.0% in 2011 to 32.7% in 2012 was mainly due to a mixed effect of:

(i) increase in percentage of other income and gains and finance income over total revenue from 3.4% in 2011 to 6.5% in 2012 due to the increase in government subsidies received and our relatively strong cash position, and decrease in percentage of other expenses over total revenue by 1.4 percentage points; offset by

(ii) decrease in gross profit margin from 76.1% in 2011 to 74.9% in 2012 due to the increased inventory provision, and increase in percentage of selling and distribution costs and administrative expense over total revenue from 33.5% in 2011 to 36.9% in 2012 as detailed above.

Profit attributable to owners of the parent

As a result of the foregoing, profit attributable to owners of the parent increased by RMB52.0 million, or approximately 12.7%, from RMB408.2 million in 2011 to RMB460.2 million in 2012.

Working capital management

	2012	2011
Inventory turnover days	373	336
Trade receivables turnover days	30	29
Trade payables turnover days	33	35

The increase in inventory turnover days by 37 days was primarily due to the following reasons:

- the expansion of our self-operated retail points requires us to maintain a higher level of inventory to ensure sufficient stock supply to our expanding sales network and we keep certain adequate level of stock at each self-operated retail point; and
- the turnover days of off-season products with an age from 1 year to 3 years has been increased as we made a relatively optimistic procurement schedule for 2011 inventories whilst the growth in revenue was moderate due to the sluggish retail market since the last quarter of 2011.

Turnover days of trade receivables and payables were comparable for the years indicated.

Liquidity, financial position and cash flow

As at 31 December 2012, we had net current assets of approximately RMB1,675.3 million, as compared to that of RMB1,374.9 million as at 31 December 2011. As at 31 December 2012, the current ratio, being current assets divided by current liabilities, of our Group was 5.8 times, compared to that of 4.4 times as at 31 December 2011.

As at 31 December 2012, we had an aggregate cash and cash equivalents and structured bank deposits of approximately RMB1,461.7 million. Our Group did not have any bank borrowings or other financing facilities during the year. The table below sets forth selected cash flow data from our consolidated statement of cash flows:

	2012 RMB' million	2011 RMB' million
Net cash flows from operating activities	**360.3**	280.3
Net cash flows used in investing activities	**(1,094.0)**	(235.9)
Net cash flows from/(used in) financing activities	**(197.4)**	379.1
Net increase/(decrease) in cash and cash equivalents	**(931.1)**	423.5
Effect of foreign exchange rate changes, net	**(0.1)**	3.8
Cash and cash equivalents at beginning of year as stated in the consolidated statement of cash flows	**1,036.0**	608.7
Cash and cash equivalents at end of year as stated in the consolidated statement of cash flows	**104.8**	1,036.0
Add: time deposits with original maturity of over three months	**274.1**	3.0
Less: time deposits with original maturity of less than three months when acquired, pledged as security for issuing bank acceptance notes	**—**	(4.0)
Cash and cash equivalents as stated in the consolidated statement of financial position	**378.9**	1,035.0

Operating activities

Net cash flows from operating activities increased from RMB280.3 million in 2011 to RMB360.3 million in 2012 which was primarily attributable to (i) the operating cash inflows before charges in working capital of RMB700.6 million (2011: RMB595.7 million); and (ii) changes in working capital represented decrease of cash of RMB340.3 million (2011: RMB315.4 million).

Investing activities

Net cash flows used in investing activities was RMB1,094.0 million in 2012, representing an increase by RMB858.1 million compared to that of RMB235.9 million in 2011. The increase was primarily attributable to an increase of investments in structured bank deposits, which was in line with the Group's treasury management strategy to earn a higher return on cash, and partially offset by an increase in finance income due to the strong cash position throughout the year and our treasury management strategy.

Financing activities

Net cash flows of financing activities changed from an inflow of RMB379.1 million in 2011 to an outflow of RMB197.4 million in 2012. The net cash flows used in financing activities in 2012 primarily represented payment of dividends of RMB204.1 million (2011: RMB75.1 million) and payment of share issue expenses of RMB17.1 million, which was partially offset by the proceeds of RMB34.2 million from exercise of over-allotment option.

Pledge of assets

As at 31 December 2012, no asset of our Group was pledged as a security for bank borrowings or any other financing facilities.

Capital commitments and contingent liability

Capital commitments for acquisition of the intellectual property rights of Zoo York and Artful Doger were RMB50.3 million as at 31 December 2012. Capital commitment for obtaining the licence of Maxim's was RMB13.8 million as at 31 December 2012.

There was no significant contingent liability for the Group as at 31 December 2012.

Foreign exchange management

We conduct business primarily in Hong Kong and the PRC with most of our transactions denominated and settled in Hong Kong dollars ("HK$") and RMB.

We have not entered into any forward contracts to hedge against fluctuations in the exchange rate between RMB and HK$. However, our management monitors foreign exchange exposure regularly and will consider if there is a need to hedge against significant foreign currency exposure, if necessary.

Use of proceeds from the IPO

The shares of the Company were listed on 9 December 2011 on the Stock Exchange. The total net proceeds from the IPO amounted to approximately HK$803.9 million (equivalent to approximately RMB654.8 million), including the net proceeds from the partial exercise of the over-allotment option on 30 December 2011.

The table below sets forth the utilisation of the net proceeds from the IPO and the unused amount as at 31 December 2012. All the unused proceeds were deposited in licensed banks in the PRC and Hong Kong:

	Net proceeds from the IPO (HK$ million)	**Percentage to total amount** %	**Utilised amount as at 31 December 2012** (HK$ million)	**Unutilised amount as at 31 December 2012** (HK$ million)
Licensing or acquisition of additional recognised international brands	380.7	47	—	380.7
Expansion and enhancement of existing logistical system	193.1	24	—	193.1
Settlement of shareholder's loan	152.8	19	147.1	5.7
General working capital	77.3	10	—	77.3
	803.9	100	147.1	656.8

OPERATION REVIEW

Sales network

Our strategy is to use a combination of self-operated retail points as well as retail points operated by third-party retailers to increase our market penetration. We believe that selling our products through a balanced network by establishing a meaningful presence in major cities in the PRC which we consider as our core markets by opening our self-operated retail points and engaging third-party retailers which directly operate stores or concession counters in department stores or shopping malls in cities where we do not operate retail points to expand our sales network has allowed us to penetrate the vast PRC menswear market.

As at 31 December 2012, our sales network comprised a total of 549 self-operated retail points, comprising concession counters, consignment stores and self-operated stores, and 763 retail points, including concession counters and self-operated stores, operated by our third-party retailers.

The following table sets forth the number of our self-operated retail points and retail points operated by our third-party retailers in the PRC by brand as at 31 December 2012 and 2011:

	2012			2011		
Brand	**Self-operated retail points**	**Retail points operated by third-party retailers**	**Total retail points**	Self-operated retail points	Retail points operated by third-party retailers	Total retail points
Jeep						
— menswear	**197**	**486**	**683**	171	382	553
— lady	**46**	**29**	**75**	20	13	33
Santa Barbara Polo & Racquet Club ("SBPRC")	**192**	**189**	**381**	161	171	332
London Fog	**72**	**59**	**131**	60	61	121
Others	**42**	**—**	**42**	63	—	63
Total	**549**	**763**	**1,312**	475	627	1,102

Self-operated retail points

- Self-operated concession counters: as at 31 December 2012 and 2011, we had a network of 535 and 467, respectively, which were directly operated by us. All of our self-operated concession counters are located within mainstream department stores, including Parkson (百盛), Golden Eagle (金鷹), MOI (茂業), Intime (銀泰), Wangfujing (王府井); and

- Self-operated stores: as at 31 December 2012 and 2011, we had a network of 14 and 8, respectively, most of which were located in shopping malls within major cities in the PRC to ensure a steady flow of consumers as well as to enhance our sales and brand awareness.

Retail points operated by third-party retailers

During the year, we engaged 35 new third-party retailers for our Jeep products, 17 for our SBPRC products and 4 for our London Fog products. We have also increased visits to our third-party retailers and provided formal and systematic training to them to implement a set of standard operating procedures for store operating functions, including cashier, marketing concession staff and store supervisor.

Branding

The continuing implementation of a multi-brand strategy is critical to our sustainable expansion and growth. We believe that our multi-brand strategy will allow us capture more market segments, take advantage of a wider range of market opportunities and ultimately increase our overall market share in China's fast-growing menswear market. Our diversification initiatives in brand portfolio in 2012 include the followings:

- We entered into a joint venture agreement with Perry Ellis International Group Holdings Limited and Perry Ellis International, Inc. in April 2012 to establish joint venture companies in Hong Kong and PRC for the purpose of engaging in the promotion, manufacture, sale and marketing of mid-to-high end men's and women's apparel products and accessories under the "Manhattan" trademarks in the PRC. Manhattan has stood for innovation and quality for over 150 years, and continues to evolve into a diverse dress-casual lifestyle brand based on the essentials of metropolitan living. The classic Manhattan remains a dress shirt of choice, available at finer department stores throughout Asia and the Americas;

- We entered into a license agreement with MAXIM'S LIMITED in June 2012 for the purpose of engaging in the promotion, manufacture, sale and marketing of men's apparel products and accessories under the "Maxim's" trademarks in the PRC. Maxim's was founded in 1893 and became one of the most popular and fashionable restaurants in Paris. The restaurant and the Maxim's trademarks are now owned by Mr. Pierre Cardin.

- We entered into trademark assignment and sale agreements with Iconix China Holdings Limited in December 2012 for acquisition of the intellectual property rights of "Zoo York" and "Artful Doger" which are concurrently registered in the PRC, Hong Kong, Macau and Taiwan.

Our brands are one of the most valuable assets and creating brand equity is more important than ever in a competitive retail environment. We differentiate ourselves from our competitors through our marketing and promotional initiatives, including:

- continuing to enhance the layout of our retail points and the way to display our products under our "stylish, attractive and consistent" principle to provide better shopping experience for our consumers;
- active participation in in-store marketing activities organised by department stores and shopping malls which we believe is a relatively more cost-efficient marketing approach;
- on 11 December 2012, Iconix Brand Group Inc. and our Group successfully hosted a cocktail party in celebrating the launch of 2012/2013 fall/winter season products of London Fog; and
- on 17 December 2012, a charity party for celebrating the centenary of Santa Barbara Polo & Racquet Club was held by Interasia & Associates (Holdings) Co., Ltd. and our Group. Over 300 celebrities including Mr. Kenny Bee attended and a total of RMB10,000 was raised for Cui Yongyuan Commonweal Foundation in the party.

Design and product development

The Group has a dedicated design team for each of the brands. Product design for most of our brands is done in-house by our design team based in Hong Kong and Shanghai. As at 31 December 2012, our in-house design team comprises 24 full-time designers and is led by our Chief Design Officer, who has design experience in the industry for more than twenty years. The majority of our designers have an average of more than three years working experience in the related field.

In order to allow our design team to keep abreast of the latest trends and developments in new designs, we have arranged our designers to attend fashion shows and trade exhibitions in Beijing, Shanghai, Hong Kong, Paris, Milan and New York. Iconix China Limited also invited our design team to make a visit to Mr. Tommy Hilfiger's studio in New York and London Fog's accessories suppliers in the United States during the year.

We believe a wide range of product offerings including fabrics, styles, colours and sizes is one of the keys to our success. Our design team produced over 1,000 stock keeping units of product designs for each season products in 2012 to cover a wide range of consumer sub-segments and cater to the carried weather conditions of different regions in China.

Production and supply chain

We operate a supply chain model that combines of self-production, subcontracting services and outsourcing production, with an aim to optimise product quality, cost-effectiveness and production flexibility. The automated apparel transporting systems in our Dezhou manufacturing plant have been put into use during the year to improve production efficiency and maintain consistent high quality products.

In 2012, we have also allocated significant efforts and worked with third-party consultancies to develop a fine-tuned and standardized operational manuals that cover raw materials sourcing, production outsourcing, products distribution and inventory management to provide detailed guidance to our frontline employees. We believe the standardized operations provide a platform for sustainable future growth by enabling us to replicate our operations and improve efficiency of our supply chain.

Our office automation and enterprise resource planning systems have been deployed by our major third-party manufacturers to improve data and information exchanges. The objective of the initiative is to build long-term relationship with our third-party manufacturers and ensure consistent supply of our products in a cost-efficient manner.

Employee information

As at 31 December 2012, our Group had a total of 2,537 full-time employees. Staff costs including Directors' remuneration for 2012 totaled RMB100.4 million, compared with that of RMB50.8 million for 2011.

We believe that high-quality customer service in our self-operated retail points is a cornerstone of our success and we directly manage recruitment and training of our frontline sales attendants at these retail points to promote high-quality customer service. Our training session includes the information of the Group, history of our brands, methods of serving customers, knowledge of our products and selling skills. We have also collaborated with professional parties to produce a tutorial video on customer service for our frontline sales attendants during the year.

To ensure a stable supply of future generation of management personnel, we have been collaborating with other independent third-party consultancies to develop training programs that combine industry knowledge, management skills, internal controls and corporate governance for our management.

Our sustainable growth also depends on the contribution from each of our employee and we therefore offer competitive wages and other benefits to our employees and make salary adjustments in response to the local labour market conditions. We also operate a share option scheme and a pre-IPO share option scheme for the purpose of providing incentives and rewards to our eligible employees for their contribution to and continuing efforts to the Group. A total of 199,224,000 options under the pre-IPO share option scheme that granted to 8 directors, 7 senior management staff and 4 employees, were outstanding as at 31 December 2012.

Corporate social responsibility

Being a responsible citizen is core fundamentals of our culture. In August 2012, we participated in the "I Fly" rural teachers training sessions organised by the Chinese Red Cross Foundation and Cui Yongyuan Commonweal Foundation for the purpose of supporting China's rural education. A total donation of RMB0.1 million was made by the Group to the program.

Prospects

Management will continue to focus on the following key objectives for 2013:

- In line with our multi-brand strategy, the Group will seek opportunities to further diversify its brand portfolio and increase the portion of revenue from self-owned brands. We plan to introduce the first fall/winter season products of our new brands such as Manhattan and Maxim's in the third quarter of 2013. Our diversification initiatives also include efforts to expand the outreach of our existing core brand Jeep. The first fall/winter season products under "Jeep Spirit", targeting the younger consumer group, will be launched in late 2013.

- We noticed rapid growth in outlet stores in recent years. In line with our strategy to establish a multi-faceted sales and retail model and given the current economic environment, we will continue to place great emphasis on expanding our outlet store network;

- The appearance of e-commerce has a huge impact on the consumption pattern and behavior of the consumers. In response to such changes, the Group will explore more sales opportunities from e-commerce business;

- Same store sales will be improved through precise product distribution and our "stylish, attractive and consistent" principle in display of our products;

- New media, including social networking websites, microblogs, wechat on the internet, will be leveraged to enhance interaction with the customers and to raise brand awareness among our customers;

- Cost will continue to be managed. We have established a dedicated team to control and monitor our procurement. Our experience of operating the Dezhou manufacturing plant will enable us to formulate a set of cost models and thus increasing our bargain powers on negotiation of favorable trading terms with third-party manufacturers.

Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. LO Peter (路嘉星先生), aged 57, is the Chairman and an executive director of our Company. He has been serving as a director of Manhattan (China) Limited, one of our subsidiaries, since April 2012. He also serves as a director in a number of our subsidiaries. Mr. Lo joined our Group in 2006 and is primarily responsible for our Group's overall strategic planning and brand selection and sourcing. He is also the chairman and a non-executive director of Bio-Dynamic Group Limited and an independent non-executive director of Ajisen (China) Holdings Limited and Uni-President China Holdings Ltd., companies currently listed on the Main Board of the Stock Exchange. Mr. Lo is also a director of China Enterprise Captial Limited. Mr. Lo was the chief executive officer and executive director of Harbin Brewery Group Limited, a company formerly listed on the Main Board of the Stock Exchange until 2004. Mr. Lo received a Bachelor of Science (Economics) degree in Mathematical Economics and Econometrics from the London School of Economics and Political Science in 1982. He received the "Director of the Year 2004" award from The Hong Kong Institute of Directors. He was appointed as our Chairman and executive director on 10 March 2011.

Mr. ZHANG Yongli (張永力先生), aged 53, is the Chief Executive Officer and an executive director of our Company. He resigned from his office as an executive director of Ruiguo (Suzhou) Fashion Co., Ltd. and Shanghai Xunge Fashion Co., Ltd. in 2012, and has been serving as an executive director of 上海曼克頓服飾有限公司 (Shanghai Manhattan Fashion Co., Ltd.) and Manhattan (China) Limited since September 2012 and October 2012 respectively; all of the aforementioned companies are our subsidiaries. Mr. Zhang joined our Group in 1999 and is primarily responsible for our Group's overall strategic planning and the management of our Group's business operations. He also serves as a director in almost all of our subsidiaries. Mr. Zhang has over 10 years of experience in the PRC menswear industry and was selected as one of the "25 Influential Chinese in Global Fashion" in 2011 by Forbes China. Mr. Zhang is the brother of one of our controlling shareholders, Mr. Zhang Bruce Yongfu. He was appointed as our Chief Executive Officer and executive director on 8 June 2011. Mr. Zhang was a director of Guangdong Rieys until May 2009.

Mr. SUN David Lee (孫如暐先生), aged 47, is an executive director of our Company. He has been serving as a director of Manhattan (China) Limited, one of our subsidiaries, since October 2012. He joined our Group in 2006 and also serves as a director in a number of our subsidiaries. Mr. Sun is primarily responsible for brands sourcing and transaction management. He has been an independent non-executive director of Dynasty Fine Wines Group Limited, a company listed on the Main Board of the Stock Exchange, since November 2012. He is also the chairman and an executive director of Asia Coal Limited, a company currently listed on the Main Board of the Stock Exchange. He was the managing director of Pacific Alliance Group Limited, an Asia-focused alternative investment management firm. Mr. Sun was the director for strategy and business development Asia at Interbrew (currently known as Anheuser-Busch InBev). He was also a consultant in the corporate finance and strategy practice of McKinsey & Company, Inc. in Hong Kong. Prior to his position at McKinsey, Mr. Sun practised law as an associate in the corporate group at Linklaters. Mr. Sun holds a Juris Doctor from the University of Illinois College of Law. He is a registered attorney in Illinois of the U.S.. Mr. Sun was appointed as our executive director on 8 June 2011.

Ms. HUANG Xiaoyun (黃曉雲女士), aged 41, is the Chief Financial Officer and an executive director of our Company. She has also been serving as a director of Manhattan (China) Limited, one of our subsidiaries, since October 2012. Ms. Huang joined our Group in 2000. Previously, she was a manager in our Group's financial department from 2000 to 2001. She is responsible for the financial reporting and administration of our Group's PRC operations. She has over 10 years of experience in accounting and financial management. Ms. Huang holds a Master of Business Administration Degree from The South China University of Technology. Ms. Huang was appointed as our executive director on 8 June 2011 and Chief Financial Officer on 14 May 2012.

NON-EXECUTIVE DIRECTORS

Mr. LI Guoqiang (李國強先生), aged 43, is a non-executive director of our Company. Mr. Li is a member of the China Institute of Certified Public Accountant. Mr. Li is the holder of a Ph.D in business administration granted by the Macau University of Science and Technology in 2009. Mr. Li is a director, deputy manager and chief financial officer of 深圳相控科技有限公司 (Shenzhen PhasCon Technologies Limited). Mr. Li has extensive experience in accounting, property valuation and business administration. Mr. Li was an auditor with Arthur Andersen Huaqiang CPA and 深圳中審會計師事務所 (Shenzhen Zhongshen Certified Accountant). Mr. Li also acted as the chief financial officer and vice president of 廣東雷伊(集團)股份有限公司 (Guangdong Rieys Group Co., Ltd.) until 2006 and 2009, respectively. Mr. Li was appointed as our non-executive director on 8 June 2011.

Mr. WANG Wei (王瑋先生), aged 30, is a non-executive director of our Company. Mr. Wang is a Principal of KKR Investment Consultancy (Beijing) Company Limited ("KKR"), focusing on private equity transactions in the Greater China region. Prior to joining KKR, Mr. Wang worked at Orchid Asia Investment Group and McKinsey & Company. Mr. Wang has been actively involved in advising on investments in Sino Prosperity Real Estate Platform, China Cord Blood Corporation and the Company at KKR and Orchid Asia Investment Group. Mr. Wang graduated from Shanghai Jiaotong University with a Bachelor of Science degree in Economics in 2005. Mr. Wang was appointed as our non-executive director on 14 May 2012.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. KWONG Wilson Wai Sun (鄺偉信先生), aged 47, is an independent non-executive director of our Company. He is the President of Gushan Environmental Energy Limited, a copper products manufacturer and biodiesel producer in China. He is also the independent non-executive director of C. Banner International Holdings Limited, a company listed on the Main Board of the Stock Exchange, since 26 August 2011. Mr. Kwong has 12 years of experience in corporate finance and equity capital markets in Asia, having previously worked at a number of investment banks in Hong Kong. Prior to joining Gushan Environmental Energy Limited in 2006, he was the managing director of investment banking and he held the position as the head of Hong Kong and China equity capital markets at CLSA Equity Capital Markets Limited since March 2004. From 2002 to 2003, Mr. Kwong was a director and the head of equity capital markets for Cazenove Asia Limited. After graduating from the University of Cambridge, England with a Bachelor's degree in 1987, he qualified as a chartered accountant in the United Kingdom with KPMG in 1990 and as a chartered secretary and administrator in the United Kingdom in 1991. Mr. Kwong is currently an associate member of the Institute of Chartered Accountant in England and Wales, the Hong Kong Institute of Certified Public Accountants and the Hong Kong Institute of Chartered Secretaries.

Mr. CUI Yi (崔義先生), aged 58, is an independent non-executive director of our Company. He is the founder and director of PMC China Trading Company Limited (合力洋行（中國）有限公司), and was responsible for managing the authorised dealership of glass tube products under a German brand in the PRC and Hong Kong. Mr. Cui is also the director of Jescove Company Limited (宏銀有限公司). He has also been acting as the executive director and deputy general manager of Hong Kong Zhanyou Company Limited (香港湛佑有限公司) since 1993 and responsible for the preparation and establishment of ZIP Comayagus, S.A., a textile industrial complex, in Honduras, Central America. From 1995 to 1998, Mr. Cui was the executive director and executive general manager of the companies of ZIP Comayagua S.A., responsible for management of the textile industrial complex. From 1990 to 1991, he was the assistant general manager of Textile Development Company (上海紡織住宅開發總公司) under the Shanghai Textile Industry Council (上海紡織工業局), and he was the deputy general manager of Hainan Shenhai Enterprise Group (海南申海企業集團) under the same council in 1991, responsible for the trading of textile products and the development of overseas markets for textile products. Mr. Cui graduated from The East China University of Political Science and Law majoring in law.

Mr. YEUNG Chi Wai (楊志偉先生), aged 52, is an independent non-executive director of our Company. Mr. Yeung is the founder and director of Edwin Yeung & Company (CPA) Limited and has been practising as a certified public accountant with the firm since 1991. He has been an associate of the Chartered Association of Certified Accountants since 1988. Mr. Yeung became an associate member and a fellow member of the Hong Kong Institute of Certified Public Accountants in 1989 and 1996, respectively. He is also a member of the Disciplinary Panel of the Hong Kong Institute of Certified Public Accountants. Mr. Yeung has been a fellow member of the Association of Chartered Certified Accountants since 1993, an associate of the Institute of Chartered Accountants in England and Wales since 2005 and a Fellow Member of CPA Australia since 2010. He was awarded the Medal of Honour by the Hong Kong SAR Government in 2010. He was also the president of the Society of Chinese Accountants and Auditors in 2008 and appointed as a director of Accounting Development Foundation Limited in 2012. He has been appointed as a member of the Chinese People's Political Consultative Conference in Shandong Province since January 2013.

SENIOR MANAGEMENT

Mr. WANG Hai (王海先生), aged 47, is a Vice President of our Company. He joined our Group in 1999. Previously, he held the positions of Vice General Manager for Southern Region in 1999, General Manager for Southern Region from 1999 to 2001 and Sales Controller of our Group from 2001 to 2008. He is responsible for the overall sales strategies alignment, product management and enterprise resources management of our Group. He has over 10 years of experience in the apparel industry.

Mr. WANG Jianshang (王建尚先生), aged 40, is the Chief Operation Officer of our Company. He joined our Group in 1999. Previously, he was the Administrative Officer for Southern Region from 1999 to 2000 and Administrative Manager and Sales Manager for Southern Region of our Group from 2000 to 2001. He is primarily responsible for sales strategies planning and sales activities of the Group in the PRC. He has over 10 years of experience in the apparel industry.

Mr. LU Yi (呂毅先生), aged 34, is the Chief Human Resource Officer and Regional Sales Controller of our Company. He joined our Group in 2000. Previously, he was the Manager of the President's Office from 2003 to 2004 and the assistant to Chief Human Resource Officer of our Group in 2005. He is responsible for management of licensed brands and the overall business administration of our Group, including the human resources and information management as well as business development planning and management of retail sales.

Mr. YAN Zhong (閆仲先生), aged 43, is our Regional Sales Controller of our Company. Mr. Yan joined our Group in 1999. Previously, he was the Manager for Northern Region in 1999 and Deputy General Manager for Northern Region of our Group in 2000. He is primarily responsible for the Group's business development planning and management of retail sales. He has over 10 years of experience in the apparel retail industry. Mr. Yan is the holder of a Bachelor's Degree from 中國青年政治學院 (China Youth University for Political Sciences).

Mr. LI Zhujun (李祝軍先生), aged 38, is the Chief Marketing Officer of our Company. Mr. Li joined our Group in 1999. Previously, he was the Marketing Manager for Southern Region of our Group from 2001 to 2006. He is responsible for the assessment of the authorisation of third-party retailers of our Group in the PRC and maintaining our business and strategic relationships with them. He has over 10 years of experience in the apparel industry.

Mr. WONG Hon Wing (王漢嶸先生), aged 44, is the Chief Procurement Officer — Fashion of our Company. He joined our Group in 1999. Previously, he was the Procurement Manager of our Group in 1999. He is responsible for the purchase planning and manufacturing functions of the Group. He has over 20 years of experience in the purchase and production of apparels.

Mr. LIU Wenbo (劉文波先生), aged 48, is the Chief Procurement Officer — Accessories of our Company. Previously, he was the Procurement Manager from 1999 to 2000, Vice General Manager for Southern Region from 2000 to 2001, General Manager for Southern Region from 2001 to 2003 and Chief Human Resource Officer of our Group from 2004 to 2005. He is responsible for purchase planning and manufacturing of accessories for our Group. Mr. Liu holds a doctor's degree from the Shanghai International Studies University.

Ms. LEUNG Shuk Yi (梁淑儀女士), aged 46, is the Chief Design Officer of our Company. She joined our group in 2002 and has over 20 years experience in design and garment of apparels. Ms. Leung holds a Honor Diploma in fashion design from the Académie Internationale de Coupe de Paris (Ecole Supérieure Internationale des Modélistes du Vêtement) and Ecole Bellecour Supdemod (Haute Couture) Lyon in France.

COMPANY SECRETARY

Ms. LI Rita Yan Wing (李昕穎女士), aged 47, is a director of the corporate services division of Tricor Services Limited and a fellow of both The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries. She has over 22 years' experience in corporate advisory services. Prior to joining Tricor Services Limited, Ms. Li served as a senior manager of the company secretarial department of Tengis Limited. Ms. Li has provided various secretarial and corporate services to a number of listed companies.

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The board of directors (the "Directors") of the Company (the "Board") has committed to achieving high corporate governance standards.

The Board believes that high corporate governance standards are essential in providing a framework for the Company to safeguard the interests of shareholders and to enhance corporate value and accountability.

The Corporate Governance Code (the "CG Code"), issued by The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in October 2011, is the new edition of the Code on Corporate Governance Practices (the "Former Code"), and is applicable to financial reports covering the financial period which ends after 1 April 2012.

During the year ended 31 December 2012, the Company has complied with all the Code Provisions set out in the CG Code during the period from 1 April 2012 to 31 December 2012 as well as the Former Code during the financial period from 1 January 2012 to 31 March 2012.

The Company has also devised its own code of corporate governance based on the principles and practices as set out in the CG Code during the period from 1 April 2012 to 31 December 2012 as well as the Former Code during the financial period from 1 January 2012 to 31 March 2012.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Model Code throughout the year ended 31 December 2012.

The Company has also established written guidelines no less exacting than the Model Code (the "Employees Written Guidelines") for securities transactions by employees who are likely to be in possession of unpublished price-sensitive information of the Company.

No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company.

BOARD OF DIRECTORS

The Board currently comprises 9 members, consisting of 4 Executive Directors, 2 Non-executive Directors, and 3 Independent Non-executive Directors as follows:

Executive Directors:
Mr. LO Peter *(Chairman)*
Mr. ZHANG Yongli *(Chief Executive Officer)*
Mr. SUN David Lee
Ms. HUANG Xiaoyun

Non-executive Directors:
Mr. LI Guoqiang
Mr. WANG Wei

Independent Non-executive Directors:
Mr. KWONG Wilson Wai Sun
Mr. CUI Yi
Mr. YEUNG Chi Wai

The biographical information of the Directors are set out in the section headed "Directors and Senior Management" on pages 17 to 20 of the annual report for the year ended 31 December 2012.

None of the members of the Board is related to each other.

Chairman and Chief Executive Officer

The Chairman of the Board is Mr. LO Peter, who provides leadership for the Board and is also responsible for chairing the meetings, managing the operations of the Board, and ensuring that all major and appropriate issues are discussed by the Board in a timely and constructive manner. He is also responsible for our Group's overall strategic planning and brand selection and sourcing.

The Chief Executive Officer is Mr. ZHANG Yongli, who is responsible for our Group's overall strategic planning and the management of our Group's business operations.

The Board considers that the responsibilities of the Chairman and Chief Executive Officer respectively are clear and distinctive and hence written terms thereof are not necessary.

Independent Non-executive Directors

During the year ended 31 December 2012, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three Independent Non-executive Directors, representing one-third of the Board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has received written annual confirmation from each of the Independent Non-executive Directors in respect of his independence in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules. The Company is of the view that all Independent Non-executive Directors are independent.

Non-executive Directors and Directors' Re-election

In accordance with the Company's Articles of Association and code provision A.4.1 of the CG Code, Non-executive Directors shall be appointed for a specific term, subject to re-election, whereas code provision A.4.2 states that all directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after appointment and that every director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years.

Each of the Directors is appointed for a specific term of three years and is subject to retirement by rotation once every three years.

Responsibilities, Accountabilities and Contributions of the Board and Management

The Board is responsible for leadership and control of the Company and oversees the Group's businesses, strategic decisions and performance and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. Directors of the Board take decisions objectively in the interests of the Company.

All Directors, including Non-executive Directors and Independent Non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning.

All Directors have full and timely access to all the information of the Company as well as the services and advice from the company secretary and senior management. The Directors may, upon request, seek independent professional advice in appropriate circumstances, at the Company's expenses for discharging their duties to the Company.

The Directors shall disclose to the Company details of other offices held by them and the Board regularly reviews the contribution required from each director to perform his/her responsibilities to the Company.

The Board reserves for its decision all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant operational matters of the Company. Responsibilities relating to implementing decisions of the Board, directing and co-ordinating the daily operation and management of the Company are delegated to the management.

Continuous Professional Development of Directors

Directors keep abreast of responsibilities as a Director and of the conduct, business activities and development of the Company.

Every newly appointed Director will receive formal, comprehensive and tailored induction on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of Director's responsibilities and obligations under the Listing Rules and relevant statutory requirements.

Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. Internally-facilitated briefings for Directors will be arranged and reading material on relevant topics will be issued to Directors where appropriate. All Directors are encouraged to attend relevant training courses at the Company's expenses.

During the year ended 31 December 2012, the Company organized a training session conducted by the qualified professionals for Directors on requirements for internal control and appropriate disclosure.

A summary of training received by Directors according to the records provided by the Directors is as follows:

Directors	Training on corporate governance, regulatory development and other relevant topics
Executive Directors	
Mr. LO Peter	✓
Mr. ZHANG Yongli	✓
Mr. SUN David Lee	✓
Ms. HUANG Xiaoyun	✓
Non-executive Directors	
Mr. LI Guoqiang	✓
Mr. WANG Wei	✓
Independent Non-executive Directors	
Mr. KWONG Wilson Wai Sun	✓
Mr. CUI Yi	✓
Mr. YEUNG Chi Wai	✓

BOARD COMMITTEES

The Board has established the Audit Committee, Remuneration Committee and Nomination Committee, for overseeing particular aspects of the Company's affairs. All the said Board committees of the Company are established with defined written terms of reference, which are posted on the Company's website and the Stock Exchange's website and are available to shareholders upon request.

The majority of the members of the said Board committees are Independent Non-executive Directors and the list of the chairman and members of each Board committee is set out under "Corporate Information" on page 2 of the annual report.

Audit Committee

The main duties of the Audit Committee include the following:

- To review the financial statements and reports and consider any significant or unusual items raised by the Company's staff responsible for the accounting and financial reporting function, compliance officer, internal auditor or external auditors before submission to the Board;

- To review the adequacy and effectiveness of the Company's financial controls system, internal control system and risk management system;

- To review the relationship with the external auditors by reference to the work performed by the auditors, their fees and terms of engagement, and make recommendations to the Board on the appointment, re-appointment and removal of external auditors; and

- To review arrangements by which employees, in confidence can raise concerns about possible improprieties in financial reporting, internal control or other matters and to ensure proper arrangements are in place for the fair and independent investigation of such concerns and appropriate follow up actions.

The Audit Committee oversees the internal control system of the Group, reviews the internal audit report submitted by the internal auditor, reports to the Board on any material issues, and makes recommendations to the Board.

The Audit Committee held three meetings to review interim and annual financial results and reports in respect of the year ended 31 December 2012 and significant issues on the financial reporting and compliance procedures, internal control and risk management systems, scope of work and appointment of external auditors, and arrangements for employees to raise concerns about possible improprieties.

The Audit Committee also met the external auditors twice without the presence of the Executive Directors.

Remuneration Committee

The primary functions of the Remuneration Committee include the following:

- To make recommendations on the establishment of procedures for developing the remuneration policy and structure for the Executive Directors and the senior management, which policy shall ensure that no director or any of his/her associates will participate in deciding his/her own remuneration;

- To review and approve the remuneration packages of the Executive Directors and the senior management by reference to the performance of the individual and the Company as well as market practice and conditions;

- To make recommendations on the remuneration packages of the Non-executive Directors and Independent Non-executive Directors by reference to the performance of the individual and the Company as well as market practice and conditions; and

- To review and approve the compensation arrangements for the Executive Directors and the senior management in connection with any loss or termination of their offices or appointments.

The Human Resources Department is responsible for collection and administration of the human resources data and making recommendations to the Remuneration Committee for consideration.

The Remuneration Committee met once to review and make recommendation to the Board on the remuneration policy and structure of the Company, and the remuneration packages of the Executive Directors and senior management and other related matters.

The Company has established a formal and transparent procedure for formulating policies on remuneration of Directors and the senior management.

The remuneration of Directors and the senior management by band for the year ended 31 December 2012 is set out below:

	Number of persons
Nil to RMB1,000,000	6
RMB1,000,001 to RMB2,000,000	1
RMB2,000,001 to RMB3,000,000	7
RMB3,000,001 to RMB4,000,000	2
RMB6,000,001 to RMB7,000,000	1

Nomination Committee

The principal duties of the Nomination Committee include reviewing the Board composition, developing and formulating relevant procedures for the nomination and appointment or re-appointment of Directors, making recommendations to the Board on the appointment and succession planning of Directors, and assessing the independence of Independent Non-executive Directors.

The Nomination Committee has adopted a set of nomination procedures for selection of candidates for directorship of the Company by making reference to the skills, experience, professional knowledge, personal integrity and time commitments of such individuals, the Company's needs and other relevant statutory requirements and regulations.

The Nomination Committee met once to review the structure, size and composition of the Board, to consider the qualifications of the retiring Directors standing for election at the annual general meeting, and to assess the independence of Independent Non-executive Directors.

Corporate Governance Functions

The Board is responsible for performing the functions set out in the code provision D.3.1 of the CG Code.

The Board reviewed the Company's corporate governance policies and practices, training and continuous professional development of Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code and Employees Written Guidelines, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

ATTENDANCE RECORD OF DIRECTORS AND COMMITTEE MEMBERS

The attendance record of each Director at the Board and Board committee meetings and the general meetings of the Company held during the year ended 31 December 2012 is set out in the table below:

	Attendance/Number of Meetings				
Director	**Board**	**Nomination Committee**	**Remuneration Committee**	**Audit Committee**	**Annual General Meeting**
Mr. LO Peter	7/7	1/1	—	—	1/1
Mr. ZHANG Yongli	6/7	—	1/1	—	1/1
Mr. SUN David Lee	7/7	—	—	—	1/1
Ms. HUANG Xiaoyun	5/7	—	—	—	1/1
Mr. LI Guoqiang	5/7	—	—	—	1/1
Mr. WANG Wei*	4/6	—	—	—	—
Mr. KWONG Wilson Wai Sun	5/7	1/1	1/1	3/3	1/1
Mr. CUI Yi	5/7	—	1/1	3/3	1/1
Mr. YEUNG Chi Wai	5/7	1/1	—	3/3	1/1

* Appointed on 14 May 2012.

Apart from regular Board meetings, the Chairman also held meetings with the Non-executive Directors (including Independent Non-executive Directors) without the presence of Executive Directors during the year.

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2012.

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other statutory and regulatory requirements.

The management has provided to the Board such explanation and information as are necessary to enable the Board to carry out an informed assessment of the Company's financial statements, which are put to the Board for approval.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

AUDITORS' REMUNERATION

The statement of the external auditors of the Company about their reporting responsibilities for the financial statements is set out in the "Independent Auditors' Report" on pages 43 to 107 of the annual report.

The fees paid or payable to Ernst & Young, and its affiliated firms, for services rendered in respect of the year ended 31 December 2012 are as follows:

	HK$'000
Audit services	2,714
Non-audit services	
— Risk advisory	370
	3,084

INTERNAL CONTROLS

During the year under review, the Board conducted a review of the effectiveness of the internal control system of the Company, including the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function.

COMPANY SECRETARY

Ms. LI Rita Yan Wing of Tricor Services Limited, an external service provider, has been engaged by the Company as its company secretary. Its primary contact person at the Company is Mr. LO Peter, the chairman of the Company.

SHAREHOLDERS' RIGHTS

To safeguard shareholder interests and rights, a separate resolution is proposed for each substantially separate issue at shareholder meetings, including the election of individual Directors. All resolutions put forward at shareholder meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and of the Stock Exchange after each shareholder meeting.

Putting Forward Proposals at General Meetings

To put forward proposals at an annual general meeting, or extraordinary general meeting, the shareholders should submit a written notice of those proposals with the detail contact information to the company secretary at Company's principal place of business at Unit 713, 7/F., East Ocean Centre, 98 Granville Road, Tsim Sha Tsui East, Kowloon, Hong Kong. The request will be verified with the Company's share registrars and upon their confirmation that the request is proper and in order, the company secretary will ask the Board to include the resolution in the agenda for the general meeting.

The notice period to be given to all the shareholders for consideration of the proposal raised by the shareholders concerned at annual general meeting, or extraordinary general meeting varies according to the nature of the proposal as follows:

- At least 21 clear days' notice (the notice period must include 20 clear business days) in writing if the proposal constitutes an ordinary resolution of the Company in an annual general meeting.
- At least 21 clear days' notice (the notice period must include 10 clear business days) in writing if the proposal constitutes a special resolution of the Company in an extraordinary general meeting.
- At least 14 clear days' notice (the notice period must include 10 clear business days) in writing if the proposal constitutes an ordinary resolution of the Company in an extraordinary general meeting.

Convening an Extraordinary General Meeting by Shareholders

Any two or more shareholders of the Company deposit a written requisition, specifying the objects of the meeting and signed by the requisitionists, at the company secretary at the Company's principal place of business at Unit 713, 7/F., East Ocean Centre, 98 Granville Road, Tsim Sha Tsui East, Kowloon, Hong Kong, provided that such requisitionists held as at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company.

Any one shareholder of the Company which is a recognized clearing house (or its nominee(s)) deposits a written requisition, specifying the objects of the meeting and signed by the requisitionist, at the company secretary at the Company's principal place of business at Unit 713, 7/F., East Ocean Centre, 98 Granville Road, Tsim Sha Tsui East, Kowloon, Hong Kong, provided that such requisitionist held as at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company.

The request will be verified with the Company's share registrars and upon their confirmation that the request is proper and in order, the company secretary will ask the Board to include the resolution in the agenda for the extraordinary general meeting.

If the Directors do not within 21 days from the date of deposit of the requisition proceed duly to convene the meeting to be held within a further 21 days, the requisitionist(s) themselves or any of them representing more than one half of the total voting rights of all of them, may convene the general meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Directors, provided that any meeting so convened shall not be held after the expiration of 3 months from the date of deposit of the requisition.

Putting Forward Enquiries to the Board

The enquiries must be in writing with contact information of the requisitionists and deposited at the company secretary at the Company's principal place of business at Unit 713, 7/F., East Ocean Centre, 98 Granville Road, Tsim Sha Tsui East, Kowloon, Hong Kong.

For the avoidance of doubt, shareholders must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address, and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

INVESTOR RELATIONS

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company endeavours to maintain an on-going dialogue with shareholders and in particular, through annual general meetings and other general meetings. The Chairman of the Board, all other members of the Board including Non-executive Directors, Independent Non-executive Directors, and the chairmen of all Board committees (or their delegates) will make themselves available at the annual general meetings to meet shareholders and answer their enquiries.

During the year under review, the Company has not made any significant changes to its Articles of Association. An up to date version of the Company's Articles of Association is also available on the Company's website and the Stock Exchange's website.

Report of the Directors

The Board has pleasure in presenting the report together with the audited consolidated financial statements of the Company and its subsidiaries (together, the "Group") for the year ended 31 December 2012.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 20 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year ended 31 December 2012.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2012 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 45 to 107 of the annual report.

The Board recommends the payment of a final dividend of HK8.2 cents per ordinary share and a special final dividend of HK1.8 cents per ordinary share in respect of the year ended 31 December 2012 to shareholders on the register of members on 24 May 2013. This recommendation has been incorporated in the financial statements as an allocation of share premium account and contributed surplus within the equity section of the statement of financial position.

There is no arrangement that a shareholder of the Company has waived or agreed to waive any dividends.

RECORD DATES

The proposed final and special final dividends are subject to approval by the shareholders at the forthcoming annual general meeting ("AGM") to be held on Monday, 20 May 2013. The record date for the entitlement to attend and vote at the AGM is on Thursday, 16 May 2013. In order to be eligible to attend and vote at the AGM, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrar, Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Thursday, 16 May 2013.

The record date for the entitlement to the proposed final and special final dividends is on Friday, 24 May 2013. In order to qualify for the final and special final dividends, if approved, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrar in Hong Kong, Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Friday, 24 May 2013.

SUMMARY FINANCIAL INFORMATION

A summary of the published results, assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements, is set out on page 108 of the annual report. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of movements in the property, plant and equipment of the Company and the Group, and investment properties of the Group during the year ended 31 December 2012 are set out in notes 17 and 19 to the financial statements, respectively.

SHARE CAPITAL

Details of movements in the Company's share capital during the year ended 31 December 2012 are set out in note 32 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands where the Company was incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PARTIAL EXERCISE OF THE OVER-ALLOTMENT OPTION

The Company announced that on 30 December 2011, the sole global coordinator, UBS AG, Hong Kong Branch, on behalf of the international underwriters partially exercised the over-allotment option, described in the prospectus of the Company dated 29 November 2011 (the "Prospectus"), requiring the Company to issue and allot 25,638,000 additional shares (the "Over-allotment Shares"). The Over-allotment Shares have been issued and allotted by the Company at HK$1.64 per share, being the offer price under the global offering. Listing of and dealing in the Over-allotment Shares commenced on the Stock Exchange on 5 January 2012. In this regard, the net proceeds from the Over-allotment Shares approximated to HK$40,782,000 (equivalent to RMB33,142,000) and the issued capital of the Company was increased to RMB281,204,000 on 5 January 2012.

PURCHASE, REDEMPTION OR SALE OF SHARES OF THE COMPANY

During the year, the Company purchased certain of its shares on the Stock Exchange and these shares were subsequently cancelled by the Company. The summarized details of those transactions are as follows:

Date of repurchases	Number of shares repurchased	Price per share		Aggregate consideration paid	
		Highest	Lowest		
		HK$	HK$	HK$'000	RMB'000
12 December 2012	1,276,000	1.43	1.40	1,828	1,482
13 December 2012	2,100,000	1.47	1.43	3,098	2,512
14 December 2012	320,000	1.49	1.48	479	388
17 December 2012	698,000	1.50	1.50	1,052	853
18 December 2012	74,000	1.53	1.53	114	92
19 December 2012	2,230,000	1.56	1.48	3,440	2,790
	6,698,000			10,011	8,117

The repurchased shares were cancelled during the year ended 31 December 2012 and the issued share capital of the Company was reduced by the par value thereof. The premium paid on the repurchase of the shares of HK$9,341,000 (equivalent to RMB7,574,000) has been charged to the share premium account. An amount equivalent to the par value of the shares cancelled has been transferred to the capital redemption reserve as set out in the consolidated statement of changes in equity.

The purchase of the Company's shares during the year ended 31 December 2012 was effected by the Directors, pursuant to the mandate from shareholders received at the last annual general meeting, with a view to benefiting shareholders as a whole by enhancing the net asset value per share and earnings per share of the Group.

Except as disclosed above and the allotment and issuance due to the partial exercise of the over-allotment option, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's shares during the year ended 31 December 2012.

RESERVES

Details of movements in the reserves of the Company and the Group during the year ended 31 December 2012 are set out in note 34 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2012, the Company's reserves, including the share premium account and contributed surplus less the accumulated loss, available for distribution, calculated in accordance with the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the "Companies Law"), amounted to approximately RMB3,981.1 million, of which RMB279.4 million has been proposed as final and special final dividends for the year ended 31 December 2012. Under the Companies Law, a company may make distribution to its shareholders out of the share premium account and contributed surplus under certain circumstances.

DONATION

Charitable and other donations made by the Group during the year ended 31 December 2012 amounted to RMB0.1 million.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2012, the aggregate sales attributable to the Group's five largest customers and the sales attributable to the Group's largest customer were approximately 5.8% and 1.3%, respectively, of the Group's total sales.

The aggregate purchases attributable to the Group's five largest suppliers and the purchases attributable to the Group's largest supplier were approximately 17.8% and 4.8%, respectively, of the Group's total purchases during the year ended 31 December 2012.

None of the Directors or any of their associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the any of the five largest customers or suppliers of the Group.

DIRECTORS

During the year ended 31 December 2012 and up to the date of this report, the Directors were:

Executive Directors:
Mr. LO Peter *(Chairman)*
Mr. ZHANG Yongli
Mr. SUN David Lee
Ms. HUANG Xiaoyun

Non-executive Directors:
Mr. LI Guoqiang
Mr. WANG Wei (appointed on 14 May 2012)
Mr. KWONG Wilson Wai Sun*
Mr. CUI Yi*
Mr. YEUNG Chi Wai*

* Independent Non-executive Directors

In accordance with the Company's articles of association, Ms. HUANG Xiaoyun, Mr. LI Guoqiang and Mr. KWONG Wilson Wai Sun will retire from the Board by rotation and Mr. WANG Wei will retire at the AGM. All of the above four retiring Directors, being eligible, will offer themselves for re-election at the AGM.

The Company has received annual confirmations of independence from each of the Independent Non-executive Directors, and as at the date of this report still considers them to be independent.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 17 to 20 of the annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the Executive Directors has entered into a service agreement with the Company for a initial fixed term of three years commencing from 8 June 2011 until terminated by not less than three months' notice in writing served by either party on the other or in accordance with the terms set out in the respective service contracts.

Mr. WANG Wei has entered into a letter of appointment with the Company and is appointed for a initial fixed term of three years commencing from 14 May 2012 until terminated by not less than three months' notice in writing served by either party on the other or in accordance with the terms set out in the letter of appointment.

Other than Mr. WANG Wei, each of the Non-executive Directors, including Independent Non-executive Directors has entered into a letter of appointment with the Company and is appointed for a initial fixed term of three years commencing from 8 June 2011 until terminated by not less than three months' notice in writing served by either party on the other or in accordance with the terms set out in the respective letters of appointment.

Apart from the foregoing, no Director proposed for re-election at the forthcoming AGM has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REMUNERATION

The primary duties of the Remuneration Committee are mainly to make recommendation to the Board on the overall remuneration policy and structure relating to all Directors and senior management of the Group; review performance-based remuneration and ensure none of the Directors is involved in determining his/her own remuneration. Details of Directors' remuneration are set out in note 11 to the financial statements.

DIRECTORS' INTERESTS IN CONTRACTS

No Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party during or at the end of the year ended 31 December 2012.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES AND DEBENTURES

At 31 December 2012, the interests and short positions of the Directors and chief executive in the share capital and underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

Long Positions in Ordinary Shares and Underlying Shares of the Company:

Name of Director	Capacity	Number of Ordinary Shares Owned	Underlying Shares Interested (Note 1)	Total	Percentage of the Company's Issued Share Capital (%)
Mr. LO Peter	Beneficial owner	800,000	20,328,000	21,128,000	0.61
Mr. ZHANG Yongli	Beneficial owner	5,574,000	20,328,000	25,902,000	0.75
Mr. SUN David Lee	Beneficial owner	100,000	8,328,000	8,428,000	0.24
Ms. HUANG Xiaoyun	Beneficial owner	—	14,400,000	14,400,000	0.42
Mr. LI Guoqiang	Beneficial owner	—	4,328,000	4,328,000	0.13
Mr. WANG Wei	—	—	—	—	—
Mr. KWONG Wilson Wai Sun	Beneficial owner	—	1,000,000	1,000,000	0.03
Mr. CUI Yi	Beneficial owner	—	1,000,000	1,000,000	0.03
Mr. YEUNG Chi Wai	Beneficial owner	—	1,000,000	1,000,000	0.03

Note:

(1) The number of underlying shares represents the shares in which the Directors are deemed to be interested as a result of holding share options,

Save as disclosed above, as at 31 December 2012, none of the Directors and chief executive had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

SHARE OPTION SCHEMES

The Company operates two share option schemes, pursuant to which the Company is entitled to grant options prior to and after the listing of the Company on the Stock Exchange. The details of both share option schemes are as follows:

Share Option Scheme

A share option scheme ("Share Option Scheme") was conditionally approved by the written resolutions of the shareholders passed on 25 November 2011 (the "Resolutions") and the terms of such Share Option Scheme are disclosed in the Prospectus. No share option was granted, exercised or cancelled by the Company under the Share Option Scheme during the year ended 31 December 2012.

Pre-IPO Share Option Scheme ("Pre-IPO Share Option Scheme")

1. Summary of Terms

The purpose of the Pre-IPO Share Option Scheme is to provide incentive and/or reward to the Directors, senior management and employees for their contribution to, and continuing efforts to promote the interests of, the Company. The principal terms of the Pre-IPO Share Option Scheme, approved by the Resolutions, are substantially the same as the terms of the Share Option Scheme except that:

(a) the subscription price per share under the Pre-IPO Share Option Scheme is HK$1.64;

(b) the total number of shares which may be issued upon the exercise of all share options granted under the Pre-IPO Share Option Scheme is 205,552,000 shares representing approximately 6.00% of the enlarged issued share capital of the Company immediately after completion of the global offering and the capitalisation issue (assuming that the over-allotment option is not exercised);

(c) save for the share options which have been granted, no further share options will be granted under the Pre-IPO Share Option Scheme on or after the Listing Date; and

(d) each share option granted under the Pre-IPO Share Option Scheme has a three-year exercise period after vesting of the relevant option.

All the share options under the Pre-IPO Share Option Scheme were granted on 9 December 2011 at a consideration of HK$1 paid by each participant.

Each of the above share options is subject to a vesting schedule of four years pursuant to which one-fourth (1/4) of the share options shall become vested and exercisable on 9 December 2012, 2013, 2014 and 2015, respectively.

Share options under the Pre-IPO Share Option Scheme do not confer rights on the holders to dividends or to vote at shareholders' meetings.

2. *Outstanding Share Options Granted*

A total of 205,552,000 shares options were granted to 20 participants by the Company on 9 December 2011 under the Pre-IPO Share Option Scheme, including 8 directors. On 14 May 2012, Mr. Mak Yue Ping ("Mr. Mak"), to whom 6,328,000 share options were granted under the Pre-IPO Share Option Scheme, resigned from his office as the company secretary and chief financial officer of the Company. According to the terms and conditions of the Pre-IPO Share Option Scheme, the share options granted to Mr. Mak were forfeited.

The details of valid grantees and share options under the Pre-IPO Share Option Scheme during the year ended 31 December 2012 by category of grantees are set out below:

	Number of grantees		
Category of grantees	Valid as at 31 December 2011	Invalid during the year	**Valid as at 31 December 2012**
Executive Directors	4	—	**4**
Non-executive Directors	1	—	**1**
Independent Non-executive Directors	3	—	**3**
Other employees	12	(1)	**11**
	20	(1)	**19**

	Number of shares to be issued upon fully exercise of all share options granted under the Pre-IPO Share Option Scheme		
Category of grantees	Outstanding as at 31 December 2011	Forfeited during the year	**Outstanding as at 31 December 2012**
Executive Directors	63,384,000	—	**63,384,000**
Non-executive Directors	4,328,000	—	**4,328,000**
Independent Non-executive Directors	3,000,000	—	**3,000,000**
Other employees	134,840,000	(6,328,000)	**128,512,000**
	205,552,000	(6,328,000)	**199,224,000**

Details of the share options granted by the Company under the Pre-IPO Share Option Scheme are set out on page 95 of the annual report.

Saved as disclosed above, no share option granted under Pre-IPO Share Option Scheme was exercised, forfeited, lapsed or cancelled during the year ended 31 December 2012.

MANAGEMENT CONTRACTS

Other than the service contracts of the Directors, the Company has not entered into any contract with any individual, firm or body corporate to manage or administer the whole or any substantial part of any business of the Company during the year ended 31 December 2012.

CONTRACT OF SIGNIFICANCE

No contracts of significance in relation to the Group's business in which the Company, any of its subsidiaries or fellow subsidiaries, or its parent company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted during or at the end of the year ended 31 December 2012.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 December 2012, the following interests and short positions of 5% or more of the issued share capital and share options of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions:

Name	Notes	**Capacity and Nature of Interest**	**Number of Ordinary Shares held**	**Percentage of the Company's Issued Share Capital**
CEC Menswear Limited	(1)	Corporate interest	1,868,100,000 (L)	54.11 (L)
CEC Outfitters Limited	(1)	Beneficial owner	1,868,100,000 (L)	54.11 (L)
China Enterprise Capital Limited	(1)	Corporate interest	1,868,100,000 (L)	54.11 (L)
Vinglory Holdings Limited	(1)	Corporate interest	1,868,100,000 (L)	54.11 (L)
Mr. ZHANG Bruce Yongfu	(1)	Corporate interest	1,868,100,000 (L)	54.11 (L)
Ms. LAM Lai Ming	(2)	Other	506,100,000 (L)	14.77 (L)
Mr. LI Gabriel	(2)	Other	506,100,000 (L)	14.77 (L)
Managecorp Limited	(2)	Trustee	506,100,000 (L)	14.77 (L)
YM Investment Limited	(3)	Corporate interest	506,100,000 (L)	14.77 (L)
OAIV Holdings, L.P.	(3)	Corporate interest	495,990,000 (L)	14.48 (L)
Orchid Asia IV Group Management, Limited	(3)	Corporate interest	495,990,000 (L)	14.48 (L)
Orchid Asia IV Group, Limited	(3)	Corporate interest	495,990,000 (L)	14.48 (L)
Orchid Asia IV Investment, Limited	(3)	Corporate interest	495,990,000 (L)	14.48 (L)
Orchid Asia IV, L.P.	(3)	Beneficial owner	495,990,000 (L)	14.48 (L)
KKR & Co. L.P.	(4)	Corporate interest	285,366,000 (L)	8.33 (L)
KKR Associates China Growth L.P.	(4)	Corporate interest	285,366,000 (L)	8.33 (L)
KKR China Apparel Limited	(4)	Beneficial owner	285,366,000 (L)	8.33 (L)
KKR China Growth Fund L.P.	(4)	Corporate interest	285,366,000 (L)	8.33 (L)
KKR China Growth Limited	(4)	Corporate interest	285,366,000 (L)	8.33 (L)
KKR Fund Holdings GP Limited	(4)	Corporate interest	285,366,000 (L)	8.33 (L)
KKR Fund Holdings L.P.	(4)	Corporate interest	285,366,000 (L)	8.33 (L)
KKR Group Holdings L.P.	(4)	Corporate interest	285,366,000 (L)	8.33 (L)
KKR Group Limited	(4)	Corporate interest	285,366,000 (L)	8.33 (L)

Name	Notes	Capacity and Nature of Interest	Number of Ordinary Shares held	Percentage of the Company's Issued Share Capital
KKR Management LLC	(4)	Corporate interest	285,366,000 (L)	8.33 (L)
KKR SP Limited	(4)	Corporate interest	285,366,000 (L)	8.33 (L)
Mr. KRAVIS Henry Roberts	(4)	Corporate interest	285,366,000 (L)	8.33 (L)
Mr. ROBERTS George R.	(4)	Corporate interest	285,366,000 (L)	8.33 (L)

(L) Long position.

Notes:

(1) CEC Outfitters Limited, holding 1,868,100,000 shares (long position) of the Company, was owned as to 55.03% and 44.97% by CEC Menswear Limited ("CEC Menswear") and Vinglory Holdings Limited ("Vinglory") respectively. CEC Menswear was wholly owned by China Enterprise Capital Limited. Vinglory was wholly owned by Mr. ZHANG Bruce Yongfu. The interest in 1,868,100,000 shares (long position) relates to the same block of shares in the Company.

(2) YM Investment Limited, holding 506,100,000 (long position) of the Company, was owned by Managecorp Limited as trustee of a discretionary trust with Mr. LI Gabriel and Ms. LAM Lai Ming as founders and Managecorp Limited as trustee.

(3) YM Investment Limited held interests in a total of 506,100,000 shares (long position) in the Company by virtue of its control over the following corporations, which held direct interests in the Company:

(3.1) Orchid Asia IV, L.P. held 495,990,000 shares (long position) in the Company. Orchid Asia IV, L.P. was wholly owned by OAIV Holdings, L.P. which was in turn wholly owned by Orchid Asia IV Group Management, Limited. Orchid Asia IV Group Management, Limited was wholly owned by Orchid Asia IV Group, Limited which was in turn wholly owned by Orchid Asia IV Investment, Limited. Orchid Asia IV Investment, Limited was owned as to 92.61% by YM Investment Limited.

(3.2) Orchid Asia IV Co-Investment, Limited held 10,110,000 shares (long position) in the Company. Orchid Asia IV Co-Investment Limited was a wholly owned subsidiary of YM Investment Limited.

(4) KKR China Apparel Limited, holding 285,366,000 shares (long position) of the Company, was owned as to 90% by KKR China Growth Fund L.P. KKR Associates China Growth L.P. ("KKR Associates") is the general partner of KKR China Growth Fund L.P. KKR SP Limited is the voting partner of KKR Associates while KKR China Growth Limited is the general partner of KKR Associates. KKR China Growth Limited was wholly owned by KKR Fund Holdings L.P. KKR Fund Holdings GP Limited is the general partner of KKR Fund Holdings L.P. KKR Group Holdings L.P. is the general partner of KKR Fund Holdings L.P. and the sole shareholder of KKR Fund Holdings G.P. Limited KKR Group Limited is the general partner of KKR Group Holdings L.P. KKR Group Limited was wholly owned by KKR & Co. L.P. while KKR Management LLC is the general partner of KKR & Co. L.P. Each of Mr. KRAVIS Henry Roberts and Mr. ROBERTS George R. is a designated member of KKR Management LLC. Mr. KRAVIS Henry Roberts and Mr. ROBERTS George R. disclaim any beneficial ownership interest in the Shares held by KKR China Apparel Limited. The interest in 285,366,000 shares (long position) relates to the same block of shares in the Company.

Save as disclosed above, as at 31 December 2012, no person, other than the Directors and chief executive of the Company, whose interests are set out in the section "Directors' and chief executive's interests and short positions in shares and underlying shares and debentures" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

RIGHTS TO PURCHASE SHARES OR DEBENTURES OF DIRECTORS

Save as disclosed under the sections headed "Directors' and chief executive's interests and short positions in shares and underlying shares and debentures" and "Share option schemes" above, at no time during the year ended 31 December 2012 were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Directors or their respective spouses or minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangements to enable the Directors to acquire such rights in any other body corporate.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

During the year ended 31 December 2012, the Group has not entered into any connected transaction or continuing connected transaction which should be disclosed pursuant to the requirements of Chapter 14A of the Listing Rules.

DISCLOSURES PURSUANT TO RULES 13.21 AND 13.22 OF THE LISTING RULES

The Board is not aware of any circumstances resulting in the responsibility of disclosure under Rules 13.21 and 13.22 of the Listing Rules.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as the code of conduct for Directors in their dealings in the Company's securities. Having made specific enquiry to all the Directors of the Company, all the Directors confirmed that they have complied with the required standard of dealings as set out in the Model Code during the year ended 31 December 2012.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

During the year ended 31 December 2012 and up to the date of this report, none of the Directors has any interest in business, which competes or may compete with the business of the Group.

REMUNERATION POLICY

The Group's remuneration policies are formulated on the performance of individual employee and on the basis of the salary trends in the PRC and Hong Kong, and will be reviewed regularly. Subject to the Group's profitability, the Group may also distribute discretionary bonus to its employees as an incentive for their contribution to the Group. The Group has adopted the Pre-IPO Share Option Scheme and the Share Option Scheme for its employees.

PENSION SCHEME

Details of the retirement benefits plans of the Group are set out in note 5 under the heading "Other employee benefits" to the financial statements.

EVENT AFTER THE REPORTING PERIOD

Details of the significant event took place subsequent to 31 December 2012 of the Group are set out in note 42 to the financial statements.

CORPORATE GOVERNANCE

A report on the principal governance practices adopted by the Company is set out on pages 21 to 30 of the annual report.

AUDIT COMMITTEE

The Company established the Audit Committee pursuant to the Resolutions in compliance with Rule 3.21 of the Listing Rules. The primary duties of the Audit Committee are mainly to make recommendation to the Board on the appointment and removal of external auditors, review the financial statements and material advice in respect of financial reporting and oversee the internal control procedures of the Company. At present, the Audit Committee of the Company consists of three members who are Mr. KWONG Wilson Wai Sun, Mr. CUI Yi and Mr. YEUNG Chi Wai. Mr. KWONG Wilson Wai Sun is the chairman of the Audit Committee. The Company's and the Group's financial statements for the year ended 31 December 2012 have been reviewed by the Audit Committee.

DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors are responsible for the preparation of financial statements for each financial period which give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. In preparing these financial statements for the year ended 31 December 2012, the Directors have selected suitable accounting policies and applied them consistently, made judgements and estimates that are reasonable; and have prepared the financial statements on the going concern basis. The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group.

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming AGM.

COMPLIANCE ADVISER'S INTEREST

Pursuant to the compliance adviser agreement dated 21 January 2013 entered into between the Company and First Shanghai Capital Limited ("First Shanghai"), First Shanghai has been appointed as the compliance adviser as required under the Listing Rules for the period from 1 February 2013 to the date on which the Company complies with Rule 13.46 of the Listing Rules in respect of the Company's financial results for the year ended 31 December 2012. First Shanghai will receive a fee for acting as the Company's compliance adviser during the period.

As notified by First Shanghai, save as disclosed above, neither First Shanghai nor its respective directors, employees or associates (as defined in the Listing Rules) had any interest in the shares of the Company, or had any options or rights to subscribe for or to nominate persons to subscribe for the shares of the Company as at 31 December 2012.

ON BEHALF OF THE BOARD

LO Peter
Chairman
Hong Kong
27 March 2013

Independent Auditors' Report

To the shareholders of China Outfitters Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of China Outfitters Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 45 to 107 of the annual report, which comprise the consolidated and company statements of financial position as at 31 December 2012, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
22nd Floor
CITIC Tower
1 Tim Mei Avenue, Central
Hong Kong
27 March 2013

Consolidated Statement of Comprehensive Income

Year ended 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
REVENUE	8	**1,407,777**	1,248,026
Cost of sales		**(353,325)**	(298,124)
Gross profit		**1,054,452**	949,902
Other income and gains, net	8	**45,509**	26,122
Selling and distribution costs		**(443,595)**	(385,087)
Administrative expenses		**(75,426)**	(33,581)
Other expenses		**(1,424)**	(17,802)
Operating profit		**579,516**	539,554
Finance income	9	**45,445**	16,262
PROFIT BEFORE TAX	10	**624,961**	555,816
Income tax expense	13	**(164,706)**	(144,590)
PROFIT FOR THE YEAR		**460,255**	411,226
OTHER COMPREHENSIVE INCOME			
Exchange differences on translation of foreign operations		**(145)**	660
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**460,110**	411,886
Profit attributable to:			
Owners of the parent	14	**460,246**	408,226
Non-controlling interests		**9**	3,000
		460,255	411,226
Total comprehensive income attributable to:			
Owners of the parent		**460,105**	408,886
Non-controlling interests		**5**	3,000
		460,110	411,886
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	16		
Basic and diluted		**RMB13.3 cents**	RMB13.7 cents

Details of the dividends paid and proposed for the year are disclosed in note 15 to the financial statements.

Consolidated Statement of Financial Position

31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	17	**86,504**	81,762
Prepaid land lease payments	18	**42,230**	42,913
Investment properties	19	**5,405**	5,538
Goodwill	21	**70,697**	70,697
Other intangible assets	22	**67,513**	67,729
Deferred tax assets	24	**42,832**	31,244
Total non-current assets		**315,181**	299,883
CURRENT ASSETS			
Inventories	25	**386,195**	336,454
Trade and bills receivables	26	**122,963**	105,095
Prepayments, deposits and other receivables	27	**56,049**	48,859
Structured bank deposits	28	**1,082,800**	245,000
Pledged bank deposits	29	**—**	3,952
Cash and cash equivalents	29	**378,894**	1,035,079
Total current assets		**2,026,901**	1,774,439
CURRENT LIABILITIES			
Trade and bills payables	30	**40,825**	26,426
Deposits received, other payables and accruals	31	**136,375**	197,216
Tax payable		**174,379**	175,861
Total current liabilities		**351,579**	399,503
NET CURRENT ASSETS		**1,675,322**	1,374,936
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,990,503**	1,674,819
NON-CURRENT LIABILITIES			
Deferred tax liabilities	24	**19,024**	14,209
Net assets		**1,971,479**	1,660,610

	Notes	**2012 RMB'000**	2011 RMB'000
EQUITY			
Equity attributable to owners of the parent			
Issued capital	32	**280,661**	279,120
Reserves	34	**1,408,968**	1,172,825
Proposed final and special final dividends	15	**279,374**	204,113
		1,969,003	1,656,058
Non-controlling interests		**2,476**	4,552
Total equity		**1,971,479**	1,660,610

LO Peter
Director

SUN David Lee
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2012

	Attributable to owners of the parent												
	Issued capital RMB'000 (note 32)	Share premium account RMB'000	Capital redemption reserve RMB'000	Merger reserve RMB'000 (note 34(a))	Acquisition reserve RMB'000 (note 34(b))	Share option reserve RMB'000 (note 33)	Statutory surplus reserve RMB'000 (note 34(c))	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Proposed final and special final dividends RMB'000 (note 15)	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2012	279,120	113,630	–	389,848	(186,036)	1,529	35,247	5,337	813,270	204,113	1,656,058	4,552	1,660,610
Profit for the year	–	–	–	–	–	–	–	–	460,246	–	460,246	9	460,255
Other comprehensive income for the year:													
Exchange differences on translation of foreign operations	–	–	–	–	–	–	–	(141)	–	–	(141)	(4)	(145)
Total comprehensive income for the year	–	–	–	–	–	–	–	(141)	460,246	–	460,105	5	460,110
Appropriations to statutory surplus reserve	–	–	–	–	–	–	8,594	–	(8,594)	–	–	–	–
Issue of shares	2,084	32,086	–	–	–	–	–	–	–	–	34,170	–	34,170
Share issue expenses	–	(1,028)	–	–	–	–	–	–	–	–	(1,028)	–	(1,028)
Equity-settled share option arrangements	–	–	–	–	–	31,928	–	–	–	–	31,928	–	31,928
Transfer of share option reserve upon the forfeiture of share options	–	–	–	–	–	(62)	–	–	62	–	–	–	–
Final 2011 dividend declared	–	–	–	–	–	–	–	–	–	(204,113)	(204,113)	–	(204,113)
Repurchase and cancellation of shares	(543)	(7,574)	543	–	–	–	–	–	(543)	–	(8,117)	–	(8,117)
Capital contributed by a non-controlling shareholder	–	–	–	–	–	–	–	–	–	–	–	2,500	2,500
Dissolution of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	(4,581)	(4,581)
Proposed final and special final 2012 dividends	–	(137,114)	–	–	–	–	–	–	(142,260)	279,374	–	–	–
At 31 December 2012	280,661	–	543*	389,848*	(186,036)*	33,395*	43,841*	5,196*	1,122,181*	279,374	1,969,003	2,476	1,971,479

	Attributable to owners of the parent											
	Issued capital RMB'000 (note 32)	Share premium account RMB'000	Merger reserve RMB'000 (note 34(a))	Acquisition reserve RMB'000 (note 34(b))	Share option reserve RMB'000 (note 33)	Statutory surplus reserve RMB'000 (note 34 (c))	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Proposed final and special final dividends RMB'000 (note 15)	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2011	–	–	302,099	(125,864)	–	11,971	4,677	503,376	–	696,259	29,137	725,396
Profit for the year	–	–	–	–	–	–	–	408,226	–	408,226	3,000	411,226
Other comprehensive income for the year:												
Exchange differences on translation of foreign operations	–	–	–	–	–	–	660	–	–	660	–	660
Total comprehensive income for the year	–	–	–	–	–	–	660	408,226	–	408,886	3,000	411,886
Reserve arising from the Reorganisation	–	–	87,757	(60,172)	–	–	–	–	–	27,585	(27,585)	–
Capitalisation issue	240,031	(240,031)	–	–	–	–	–	–	–	–	–	–
Issue of shares	39,089	601,845	(8)	–	–	–	–	–	–	640,926	–	640,926
Share issue expenses	–	(44,071)	–	–	–	–	–	–	–	(44,071)	–	(44,071)
Appropriations to statutory surplus reserve	–	–	–	–	–	23,276	–	(23,276)	–	–	–	–
Equity-settled share option arrangements	–	–	–	–	1,529	–	–	–	–	1,529	–	1,529
Dividend declared and paid by a subsidiary to its then existing shareholder	–	–	–	–	–	–	–	(75,056)	–	(75,056)	–	(75,056)
Proposed final 2011 dividend	–	(204,113)	–	–	–	–	–	–	204,113	–	–	–
At 31 December 2011	279,120	113,630*	389,848*	(186,036)*	1,529*	35,247*	5,337*	813,270*	204,113	1,656,058	4,552	1,660,610

* These components of equity comprise the consolidated reserves of RMB1,408,968,000 (2011: RMB1,172,825,000) in the consolidated statement of financial position as at 31 December 2012.

Consolidated Statement of Cash Flows

Year ended 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**624,961**	555,816
Adjustments for:			
Finance income	9	**(45,445)**	(16,262)
Equity-settled share option expenses	10	**31,928**	1,529
Gain on disposal of items of property, plant and equipment	8	**(85)**	—
Depreciation of items of property, plant and equipment	10	**8,882**	6,753
Depreciation of investment properties	10	**133**	158
Amortisation of prepaid land lease payments	10	**965**	738
Amortisation of intangible assets	10	**249**	249
Write-down of inventories to net realisable value	10	**79,057**	46,674
Impairment of trade receivables	10	**—**	29
		700,645	595,684
Increase in inventories		**(128,798)**	(170,266)
Increase in trade and bills receivables		**(17,868)**	(14,618)
(Increase)/decrease in prepayments, deposits and other receivables		**9,712**	(8,886)
Increase/(decrease) in trade and bills payables		**14,399**	(23,060)
Increase/(decrease) in deposits received, other payables and accruals		**(44,798)**	46,965
Cash received from operations		**533,292**	425,819
Withholding tax paid		**—**	(4,000)
PRC corporate income tax paid		**(172,961)**	(141,503)
Net cash flows from operating activities		**360,331**	280,316
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(13,881)**	(6,490)
Proceeds from disposal of items of property, plant and equipment		**342**	333
Additions to prepaid land lease payments		**(318)**	(9,378)
Proceeds from disposal of items of investment properties		**—**	16
(Increase)/decrease in short term deposits with original maturity of over three months		**(271,143)**	10,180
Interest received from bank deposits		**5,938**	12,382
Interest received from structured bank deposits		**22,892**	2,042
Increase in structured bank deposits		**(837,800)**	(245,000)
Net cash flows used in investing activities		**(1,093,970)**	(235,915)

	Notes	2012 RMB'000	2011 RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Decrease in amounts due to related parties		–	(146,267)
Proceeds from issue of shares		34,170	640,926
Share issue expenses		(17,071)	(40,477)
Repurchase of shares		(8,117)	—
Dissolution of a subsidiary		(2,331)	—
Dividends paid	15	(204,113)	—
Dividends declared and paid by a subsidiary to its then existing shareholder		–	(75,056)
Net cash flows from/(used in) financing activities		(197,462)	379,126
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(931,101)	423,527
Effect of foreign exchange rate changes, net		(179)	3,782
Cash and cash equivalents at beginning of year		1,036,031	608,722
CASH AND CASH EQUIVALENTS AT END OF YEAR		104,751	1,036,031
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		104,751	769,079
Time deposits		274,143	266,000
Cash and cash equivalents as stated in the consolidated statement of financial position	29	378,894	1,035,079
Time deposits with original maturity of less than three months when acquired, pledged as security for issuing bank acceptance notes	29	–	3,952
Less: Time deposits with original maturity of over three months		(274,143)	(3,000)
Cash and cash equivalents as stated in the consolidated statement of cash flows		104,751	1,036,031

Statement of Financial Position

31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
NON-CURRENT ASSETS			
Property	17	**6,909**	—
Investments in subsidiaries	20	**3,794,283**	3,778,531
Total non-current assets		**3,801,192**	3,778,531
CURRENT ASSETS			
Prepayments and other receivables	27	**3,519**	29
Amounts due from subsidiaries	20	**126,315**	91,259
Cash and cash equivalents	29	**268,747**	486,109
Total current assets		**398,581**	577,397
CURRENT LIABILITIES			
Accruals	31	**165**	16,092
NET CURRENT ASSETS		**398,416**	561,305
Net assets		**4,199,608**	4,339,836
EQUITY			
Issued capital	32	**280,661**	279,120
Reserves	34	**3,639,573**	3,856,603
Proposed final and special final dividends	15	**279,374**	204,113
Total equity		**4,199,608**	4,339,836

LO Peter
Director

SUN David Lee
Director

1. CORPORATE INFORMATION

The Company was incorporated in the Cayman Islands on 7 March 2011 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The registered office of the Company is 190 Elgin Avenue, George Town, Grand Cayman KY1-9005, Cayman Islands. The address of its principal place of business is Unit 713, 7/F, East Ocean Centre, 98 Granville Road, Tsim Sha Tsui East, Kowloon, Hong Kong. The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 9 December 2011 (the "Listing Date").

The principal activity of the Company is investment holding. The Group is principally engaged in the business of the design, manufacture, marketing and sale of apparel products and accessories in the People's Republic of China (the "PRC", or Mainland China which excludes, for the purpose of this report, the Hong Kong Special Administrative Region of the PRC or Hong Kong, the Macau Special Administrative Region of the PRC or Macau, and Taiwan), with a focus on menswear. There has been no significant change in the Group's principal activities during the year.

In the opinion of the directors of the Company (the "Directors"), as of the date of this report, the immediate holding company and the ultimate holding company of the Company are CEC Outfitters Limited and China Enterprise Capital Limited, respectively, which were incorporated in the British Virgin Islands (the "BVI").

2. BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRSs", which include all International Financial Reporting Standards, International Accounting Standards ("IAS") and Interpretations) issued by the International Accounting Standards Board (the "IASB") and disclosure requirements of the Hong Kong Companies Ordinance.

These financial statements have been prepared under the historical cost convention. They are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2012. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if it results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

3. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following revised IFRSs for the first time for the current year's financial statements.

IFRS 1 Amendments	Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards — Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*
IFRS 7 Amendments	Amendments to *IFRS 7 Financial Instruments: Disclosures — Transfers of Financial Assets*
IAS 12 Amendments	Amendments to IAS 12 *Income Taxes — Deferred Tax: Recovery of Underlying Assets*

The adoption of the revised IFRSs has had no significant financial effect on these financial statements.

4. ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in these financial statements.

IFRS 1 Amendments	Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards — Government Loans*[2]
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures — Offsetting Financial Assets and Financial Liabilities*[2]
IFRS 9	*Financial Instruments*[4]
IFRS 10	*Consolidated Financial Statements*[2]
IFRS 11	*Joint Arrangements*[2]
IFRS 12	*Disclosure of Interests in Other Entities*[2]
IFRS 10, IFRS 11 and IFRS 12 Amendments	Amendments to IFRS 10, IFRS 11 and IFRS 12 — *Transition Guidance*[2]
IFRS 10, IFRS 12 and IAS 27 (Revised) Amendments	Amendments to IFRS 10, IFRS 12 and IAS 27 (Revised) — *Investment Entities*[3]
IFRS 13	*Fair Value Measurement*[2]
IAS 1 Amendments	Amendments to IAS 1 *Presentation of Financial Statements — Presentation of Items of Other Comprehensive Income*[1]
IAS 19 Amendments	Amendments to IAS 19 *Employee Benefits*[2]
IAS 27 (Revised)	*Separate Financial Statements*[2]
IAS 28 (Revised)	*Investments in Associates and Joint Ventures*[2]
IAS 32 Amendments	Amendments to IAS 32 *Financial Instruments: Presentation — Offsetting Financial Assets And Financial Liabilities*[3]
IFRIC 20	*Stripping Costs in the Production Phase of a Surface Mine*[2]
Annual Improvements 2009-2011 Cycle	Amendments to a number of IFRSs issued in May 2012[2]

1 Effective for annual periods beginning on or after 1 July 2012
2 Effective for annual periods beginning on or after 1 January 2013
3 Effective for annual periods beginning on or after 1 January 2014
4 Effective for annual periods beginning on or after 1 January 2015

4. ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS *(continued)*

Further information about those IFRSs that are expected to be applicable to the Group is as follows:

The IFRS 7 Amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. The Group expects to adopt the amendments from 1 January 2013.

IFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace IAS 39 *Financial Instruments: Recognition and Measurement*. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of IAS 39.

In October 2010, the IASB issued additions to IFRS 9 to address financial liabilities (the "Additions") and incorporated in IFRS 9 the current derecognition principles of financial instruments of IAS 39. Most of the Additions were carried forward unchanged from IAS 39, while changes were made to the measurement of financial liabilities designated at fair value through profit or loss using the fair value option ("FVO"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income ("OCI"). The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of the Additions.

IAS 39 is aimed to be replaced by IFRS 9 in its entirety. Before this entire replacement, the guidance in IAS 39 on hedge accounting and impairment of financial assets continues to apply. The Group expects to adopt IFRS 9 from 1 January 2015. The Group will quantify the effect in conjunction with other phases, when the final standard including all phases is issued.

IFRS 10 establishes a single control model that applies to all entities including special purpose entities or structured entities. It includes a new definition of control which is used to determine which entities are consolidated. The changes introduced by IFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled, compared with the requirements in IAS 27 and SIC 12 *Consolidation — Special Purpose Entities*. IFRS 10 replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also addresses the issues raised in SIC 12. Based on the preliminary analyses performed, IFRS 10 is not expected to have any impact on the currently held investments of the Group.

4. ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS *(continued)*

IFRS 12 includes the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities previously included in IAS 27 *Consolidated and Separate Financial Statements*, IAS 31 *Interests in Joint Ventures* and IAS 28 *Investments in Associates*. It also introduces a number of new disclosure requirements for these entities.

In June 2012, the IASB issued amendments to IFRS 10, IFRS 11 and IFRS 12 which clarify the transition guidance in IFRS 10 and provide further relief from full retrospective application of these standards, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. The amendments clarify that retrospective adjustments are only required if the consolidation conclusion as to which entities are controlled by the Group is different between IFRS 10 and IAS 27 or SIC-Int 12 at the beginning of the annual period in which IFRS 10 is applied for the first time. Furthermore, for disclosures related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for periods before IFRS 12 is first applied.

The amendments to IFRS 10 issued in October 2012 include a definition of an investment entity and provide an exception to the consolidation requirement for entities that meet the definition of an investment entity. Investment entities are required to account for subsidiaries at fair value through profit or loss in accordance with IFRS 9 rather than consolidate them. Consequential amendments were made to IFRS 12 and IAS 27. The amendments to IFRS 12 also set out the disclosure requirements for investment entities. The Group expects that these amendments will not have any impact on the Group as the Company is not an investment entity as defined in IFRS 10.

Consequential amendments were made to IAS 27 and IAS 28 as a result of the issuance of IFRS 10, IFRS 11 and IFRS 12. The Group expects to adopt IFRS 10, IFRS 11, IFRS 12, IAS 27 (Revised), IAS 28 (Revised) and the subsequent amendments to these standards issued in June and October 2012 from 1 January 2013.

IFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but provides guidance on how fair value should be applied where its use is already required or permitted under other IFRSs. The Group expects to adopt IFRS 13 prospectively from 1 January 2013.

The IAS 1 Amendments change the grouping of items presented in OCI. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, net gain on hedge of a net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) would be presented separately from items which will never be reclassified (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendments will affect presentation only and have no impact on the financial position or performance. The Group expects to adopt the amendments from 1 January 2013.

4. ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS *(continued)*

The IAS 19 Amendments include a number of amendments that range from fundamental changes to simple clarifications and re-wording. The amendments introduce significant changes in the accounting for defined benefit pension plans including removing the choice to defer the recognition of actuarial gains and losses. Other changes include modifications to the timing of recognition for termination benefits, the classification of short-term employee benefits and disclosures of defined benefit plans. The Group expects to adopt the amendments from 1 January 2013.

The IAS 32 Amendments clarify the meaning of "currently has a legally enforceable right to set off" for offsetting financial assets and financial liabilities. The amendments also clarify the application of the offsetting criteria in IAS 32 to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2014.

The *Annual Improvements to IFRSs 2009–2011 Cycle* issued in May 2012 sets out amendments to a number of IFRSs. The Group expects to adopt the amendments from 1 January 2013. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Group. Those amendments that are expected to have a significant impact on the Group's policies are as follows:

(a) IAS 1 *Presentation of Financial Statements*: Clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative period is the previous period. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the previous period. The additional comparative information does not need to contain a complete set of financial statements.

    In addition, the amendment clarifies that the opening statement of financial position as at the beginning of the preceding period must be presented when an entity changes its accounting policies; makes retrospective restatements or makes reclassifications, and that change has a material effect on the statement of financial position. However, the related notes to the opening statement of financial position as at the beginning of the preceding period are not required to be presented.

(b) IAS 32 *Financial Instruments: Presentation*: Clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 *Income Taxes*. The amendment removes existing income tax requirements from IAS 32 and requires entities to apply the requirements in IAS 12 to any income tax arising from distributions to equity holders.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Goodwill

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units ("CGU"), or groups of CGUs, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the CGU (group of CGUs) to which the goodwill relates. Where the recoverable amount of the CGU (group of CGUs) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a CGU (or group of CGUs) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed in these circumstances is measured based on the relative value of the disposed operation and the portion of the CGU retained.

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's statement of comprehensive income to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets, investment properties and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or CGU's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the CGU to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the consolidated statement of comprehensive income in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the consolidated statement of comprehensive income in the period in which it arises.

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

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

  (ii) has significant influence over the Group; or

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

or

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Related parties *(continued)*

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) the entity is an associate or joint venture of the Group (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) the 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 Group or an entity related to the Group;

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

(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).

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the consolidated statement of comprehensive income in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	2%
Plant and machinery	9%
Motor vehicles	11%
Office and other equipment	19%

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment and depreciation *(continued)*

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the consolidated statement of comprehensive income in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents buildings and plant and machinery under construction, which are stated at cost less any impairment losses, and are not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment or investment properties when completed and ready for use.

Investment properties

Investment properties are interests in land and buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

Depreciation is provided using the straight-line method to write off the cost of the investment properties over the estimated useful lives. Where the carrying amount of an investment property is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the item can be measured reliably. All other repairs and maintenance costs are expensed in the consolidated statement of comprehensive income for period in which they are incurred.

Any gains or losses on the retirement or disposal of an investment property are recognised in the consolidated statement of comprehensive income in the year of retirement or disposal.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Other intangible assets (other than goodwill)

Intangible assets acquired separately are measured at cost on initial recognition. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the CGU level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Licensing agreements

Licensing agreements acquired in a business combination are stated at cost less any impairment losses and are amortised on the straight-line basis over their respective estimated lives ranging from two to seven years.

Retail networks

Retail networks acquired in a business combination represent flagship stores and department stores operated by the PRC Doright Group at the acquisition date. The retail networks are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of twenty years, being the operation tenure of the group companies engaged in the retail business.

Trademarks

The trademarks of "London Fog" are classified as intangible assets with indefinite useful lives. The Directors are of the opinion that the trademarks will contribute cash flows for an indefinite period and the legal rights of the trademarks are capable of being renewed at minimal cost. The trademarks are stated at cost less any impairment losses.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the consolidated statement of comprehensive income on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the consolidated statement of comprehensive income on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in the consolidated statement of comprehensive income. The loss arising from impairment is recognised in the consolidated statement of comprehensive income in other expenses.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity when the Group has the positive intention and ability to hold them to maturity. Held-to-maturity investments are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the consolidated statement of comprehensive income. The loss arising from impairment is recognised in the consolidated statement of comprehensive income in other expenses.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset, or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets *(continued)*

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the consolidated statement of comprehensive income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to the consolidated statement of comprehensive income.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade and bills payables and other payables.

Subsequent measurement of loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the consolidated statement of comprehensive income when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the consolidated statement of comprehensive income.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the consolidated statement of comprehensive income.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

Treasury shares

Own equity instruments which are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in the consolidated statement of comprehensive income on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration is recognised in equity.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Cash and cash equivalents *(continued)*

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the consolidated statement of comprehensive income.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) subsidy income, on a cash basis;

(c) arrangement fees, on a cash basis;

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition *(continued)*

(d) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument to the net carrying amount of the financial asset; and

(e) rental income, on a time proportion basis over the lease terms.

Share-based payments

The Company operates share option schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using the binomial option pricing model, further details of which are given in note 33 to the financial statements.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the consolidated statement of comprehensive income for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Dividends

Final and special final dividends proposed by the Directors are classified as a separate allocation of retained profits or share premium within the equity section of the consolidated statement of financial position, 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.

Other employee benefits

The employees of the Group's subsidiaries which operate in the PRC are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the consolidated statement of comprehensive income as they become payable in accordance with the rules of the central pension scheme.

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to the consolidated statement of comprehensive income as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF scheme.

Foreign currencies

These financial statements are presented in RMB, which the Company adopts as the presentation currency of the Group. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the consolidated statement of comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain Hong Kong and overseas subsidiaries are currencies other than RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates prevailing at the end of the reporting period and their statements of comprehensive income are translated into RMB at the weighted average exchange rates for the year.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies *(continued)*

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the consolidated statement of comprehensive income.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

6. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Operating lease commitments — Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately or leased out separately under a finance lease, the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

6. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

Judgements *(continued)*

Tax

Determining income tax provisions requires the Group to make judgements on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions in accordance with prevailing tax regulations and makes tax provisions accordingly.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are contained in note 24 below.

The Group's determination as to whether to accrue for deferred tax for withholding taxes from the distribution of dividends from the subsidiaries in the PRC according to the relevant tax jurisdictions is subject to judgement on the timing of the payment of the dividend, where the Group considers that if it is probable that the profits of the subsidiaries in the PRC will not be distributed in the foreseeable future, no deferred tax for withholding taxes is provided.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below:

Useful lives and residual values of property, plant and equipment

In determining the useful life and residual value of an item of property, plant and equipment, the Group has to consider various factors, such as technical or commercial obsolescence arising from changes or improvements in production or from a change in the market demand for the product or service output of the asset, expected usage of the asset, expected physical wear and tear, the care and maintenance of the asset, and legal or similar limits on the use of the asset. The estimation of the useful life of the asset is based on the experience of the Group with similar assets that are used in a similar way. Additional depreciation is made if the estimated useful lives and/or the residual values of items of the property, plant and equipment are different from the previous estimation. Useful lives and residual values are reviewed at the end of the reporting period based on changes in circumstances.

6. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

Estimation uncertainty *(continued)*

Useful lives of intangible assets

The Group determines the estimated useful lives and related amortisation charges for its intangible assets. Intangible assets with finite lives are amortised over the useful economic lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Write-down of inventories to net realisable value

A write-down of inventories to net realisable value is made based on the estimated net realisable value of the inventories. The assessment of the write-down required involves management's judgement and estimates on market conditions. Where the actual outcome or expectation in future is different from the original estimate, the differences will have an impact on the carrying amounts of inventories and the write-down/write-back of inventories in the period in which the estimate has been changed.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the CGUs to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the CGUs and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2012 was RMB70,697,000 (2011: RMB70,697,000). More details are given in note 23 below.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a CGU exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or CGU and choose a suitable discount rate in order to calculate the present value of those cash flows. Further details are given in note 23 below.

7. OPERATING SEGMENT INFORMATION

The Group is principally engaged in the business of the design, manufacture, marketing and sale of apparel products and accessories in the PRC, with a focus on menswear.

IFRS 8 *Operating Segments* requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to segments and to assess their performance. The information reported to the Directors, who are the chief operating decision makers for the purpose of resource allocation and assessment of performance, does not contain profit or loss information of each product line and the Directors reviewed the financial results of the Group as a whole reported under IFRSs. Therefore, the operation of the Group constitutes one single reportable segment. Accordingly, no operating segment is presented.

All of the external revenues of the Group during the financial periods presented are attributable to customers established in the PRC, the place of domicile of the Group's operating entities. Since the principal non-current assets held by the Group are located in the PRC, no geographical information is presented in accordance with IFRS 8.

No revenue from a single external customer amounted to 10% or more of the Group's revenue during the financial periods presented.

8. REVENUE AND OTHER INCOME AND GAINS, NET

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold after trade discounts.

An analysis of revenue, other income and gains is as follows:

	Group	
	2012 **RMB'000**	2011 RMB'000
Revenue		
Sale of goods	**1,407,777**	1,248,026
Other income and gains, net		
Government subsidies*	**39,313**	21,473
Arrangement fees#	**3,094**	2,640
Rental income, net	**322**	130
Sale of consumables, net	**2,536**	1,818
Gain on disposal of items of property, plant and equipment	**85**	—
Others	**159**	61
	45,509	26,122

* These represent incentive subsidies provided by local governments as a measure to attract investments in these localities. The amounts of these subsidies are generally determined by reference to value-added tax, corporate income tax, city maintenance and construction tax and other taxes paid by the Group's operating entities in these localities, but are subject to the government's further discretion.

These represent the one-off charge paid by third-party retailers when they enter into the initial retail agreements with the Group.

9. FINANCE INCOME

	Group	
	2012	2011
	RMB'000	RMB'000
Interest income on bank deposits	**10,237**	12,836
Interest income from structured bank deposits	**35,208**	3,426
	45,445	16,262

10. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

		Group	
		2012	2011
	Notes	**RMB'000**	RMB'000
Cost of inventories sold		**274,268**	251,450
Depreciation			
Property, plant and equipment	17	**8,882**	6,753
Investment properties	19	**133**	158
		9,015	6,911
Amortisation of prepaid land lease payments*	18	**965**	738
Amortisation of intangible assets*	22	**249**	249
Minimum lease payments under operating leases in respect of buildings		**10,209**	6,602
Auditors' remuneration		**2,200**	2,378
Employee benefit expenses (including directors' remuneration (note 11)):			
Wages and salaries		**59,470**	42,717
Equity-settled share option expenses		**31,928**	1,529
Pension scheme contributions		**8,956**	6,542
		100,354	50,788
Impairment of trade receivables	26	**—**	29
Write-down of inventories to net realisable value#		**79,057**	46,674
Foreign exchange differences, net		**1,424**	(1,099)

* The amortisation of prepaid land lease payments and intangible assets for the year are included in "Administrative expenses" in the consolidated statement of comprehensive income.

\# The write-down of inventories to net realisable value is included in "Cost of sales" in the consolidated statement of comprehensive income.

11. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group 2012 RMB'000	Group 2011 RMB'000
Fees	**2,434**	1,316
Other emoluments:		
Salaries, allowances and benefits in kind	**3,200**	1,896
Equity-settled share option expenses	**10,796**	526
Pension scheme contributions	**35**	13
	14,031	2,435
	16,465	3,751

In the prior year, certain directors were granted share options, in respect of their services to the Group, under the Pre-IPO Share Option Scheme of the Company, further details of which are set out in note 33 to the financial statements. The fair value of these options, which has been recognised in the consolidated statement of comprehensive income over the vesting period, was determined as at the date of grant, and the amount included in the financial statements for the current year is included in the above directors' remuneration disclosures.

(a) Independent non-executive directors

The remuneration paid to independent non-executive directors during the year was as follows:

	Fees RMB'000	**Equity-settled share option expenses** RMB'000	**Total remuneration** RMB'000
2012			
KWONG Wilson Wai Sun (鄺偉信)	**180**	**153**	**333**
CUI Yi (崔義)	**180**	**153**	**333**
YEUNG Chi Wai (楊志偉)	**180**	**153**	**333**
	540	**459**	**999**
2011			
KWONG Wilson Wai Sun (鄺偉信)	102	7	109
CUI Yi (崔義)	102	7	109
YEUNG Chi Wai (楊志偉)	102	7	109
	306	21	327

There were no other emoluments payable to the independent non-executive directors during the year (2011: Nil).

11. DIRECTORS' REMUNERATION *(continued)*

(b) Executive directors and non-executive directors

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Equity-settled share option expenses RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2012					
Executive directors:					
LO Peter (路嘉星)	**500**	**–**	**3,103**	**11**	**3,614**
ZHANG Yongli (張永力)	**500**	**2,522**	**3,103**	**5**	**6,130**
SUN David Lee (孫如暐)	**300**	**–**	**1,271**	**11**	**1,582**
HUANG Xiaoyun (黃曉云)	**300**	**678**	**2,199**	**8**	**3,185**
	1,600	**3,200**	**9,676**	**35**	**14,511**
Non-executive directors:					
LI Guoqiang (李國強)	**180**	**–**	**661**	**–**	**841**
WANG Wei (王瑋)	**114**	**–**	**–**	**–**	**114**
	294	**–**	**661**	**–**	**955**
	1,894	**3,200**	**10,337**	**35**	**15,466**
2011					
Executive directors:					
LO Peter (路嘉星)	284	–	151	1	436
ZHANG Yongli (張永力)	284	1,480	151	5	1,920
SUN David Lee (孫如暐)	170	–	62	1	233
HUANG Xiaoyun (黃曉雲)	170	416	108	6	700
	908	1,896	472	13	3,289
Non-executive director:					
LI Guoqiang (李國強)	102	–	33	–	135
	1,010	1,896	505	13	3,424

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

12. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three directors (2011: three), details of whose remuneration are set out in note 11 above. Details of the remuneration for the year of the remaining two (2011: two) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	Group	
	2012	2011
	RMB'000	RMB'000
Salaries, allowances and benefits in kind	**473**	765
Equity-settled share option expenses	**4,764**	154
Pension scheme contributions	**21**	20
	5,258	939

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2012	2011
Nil to RMB1,000,000	**—**	2
RMB2,500,001 to RMB3,000,000	**2**	—
	2	2

In the prior year, share options were granted to two non-director and non-chief executive highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 33 to the financial statements. The fair value of these options, which has been recognised in the consolidated statement of comprehensive income over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-director and non-chief executive highest paid employees' remuneration disclosures.

13. INCOME TAX EXPENSE

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

The Company and its subsidiary incorporated in the BVI are exempted from taxation.

No provision for Hong Kong profits tax has been made as the Group had no assessable profits derived from or earned in Hong Kong during the year.

13. INCOME TAX EXPENSE *(continued)*

In accordance with the relevant PRC income tax rules and regulations, the Group's subsidiaries registered in the PRC are subject to Corporate Income Tax ("CIT") at a statutory rate of 25% on their respective taxable income for the year ended 31 December 2012.

	Group	
	2012	2011
	RMB'000	RMB'000
Current — PRC		
Charge for the year	**171,479**	152,676
Deferred (note 24)	**(6,773)**	(8,086)
Total tax charge for the year	**164,706**	144,590

A reconciliation of the tax expense applicable to profit before tax at the statutory rate for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rate, and a reconciliation of the applicable rate (i.e., statutory tax rate) to the effective tax rate, are as follows:

	Group			
	2012		2011	
	RMB'000	**%**	RMB'000	%
Profit before tax	**624,961**		555,816	
Tax charge at the statutory tax rate	**156,240**	**25**	138,954	25
Entities subject to lower statutory income tax rates	**2,421**	**—**	5,743	1
Effect of withholding tax on undistributed profits of the PRC subsidiaries	**5,000**	**1**	—	—
Expenses not deductible for tax	**63**	**—**	120	—
Tax losses not recognised	**705**	**—**	656	—
Others	**277**	**—**	(883)	—
Tax charge at the Group's effective tax rate	**164,706**	**26**	144,590	26

14. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the year ended 31 December 2012 includes a profit of RMB5,132,000 (2011: loss of RMB33,989,000) which has been dealt with in the financial statements of the Company (note 34).

15. DIVIDENDS

	2012 RMB'000	2011 RMB'000
Proposed final — HK8.2 cents (2011: HK7.3 cents) per ordinary share	**230,123**	204,113
Proposed special final — HK1.8 cents (2011: Nil) per ordinary share	**49,251**	—
	279,374	204,113

The proposed final dividend and special final dividend for the year are subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

The final dividend for the year ended 31 December 2011 on ordinary shares of RMB204,113,000 was approved by shareholders of the Company at the annual general meeting on 14 May 2012 and was subsequently paid in June 2012.

16. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 3,451,579,425 (2011: 2,975,667,041) in issue during the year.

No adjustment has been made to the basic earnings per share amounts presented for the years ended 31 December 2012 and 2011 in respect of a dilution as the impact of the share options under the Pre-IPO Share Option Scheme outstanding had an anti-dilutive effect on the basic earnings per share amounts presented.

The calculations of basic and diluted earnings per share are based on:

	2012 RMB'000	2011 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**460,246**	408,226

	Number of shares	
	2012	2011
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**3,451,579,425**	2,975,667,041

17. PROPERTY, PLANT AND EQUIPMENT

Group	Buildings	Plant and machinery	Motor vehicles	Office and other equipment	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2011, net of accumulated depreciation	62,824	4,446	8,271	5,573	1,244	82,358
Additions	277	1,905	2,852	1,456	—	6,490
Transfers	—	1,244	—	—	(1,244)	—
Disposals	—	(287)	(12)	(34)	—	(333)
Depreciation provided during the year	(2,520)	(691)	(1,851)	(1,691)	—	(6,753)
At 31 December 2011 and 1 January 2012, net of accumulated depreciation	**60,581**	**6,617**	**9,260**	**5,304**	**—**	**81,762**
Additions	**10,031**	**1,046**	**961**	**1,843**	**—**	**13,881**
Disposals	**—**	**(231)**	**(14)**	**(12)**	**—**	**(257)**
Depreciation provided during the year	**(3,678)**	**(829)**	**(2,512)**	**(1,863)**	**—**	**(8,882)**
At 31 December 2012, net of accumulated depreciation	**66,934**	**6,603**	**7,695**	**5,272**	**—**	**86,504**
At 1 January 2011:						
Cost	71,921	5,525	13,682	11,173	1,244	103,545
Accumulated depreciation	(9,097)	(1,079)	(5,411)	(5,600)	—	(21,187)
Net carrying amount	62,824	4,446	8,271	5,573	1,244	82,358
At 31 December 2011:						
Cost	72,198	8,169	16,303	12,115	—	108,785
Accumulated depreciation	(11,617)	(1,552)	(7,043)	(6,811)	—	(27,023)
Net carrying amount	60,581	6,617	9,260	5,304	—	81,762
At 31 December 2012:						
Cost	**82,229**	**8,924**	**16,992**	**13,833**	**—**	**121,978**
Accumulated depreciation	**(15,295)**	**(2,321)**	**(9,297)**	**(8,561)**	**—**	**(35,474)**
Net carrying amount	**66,934**	**6,603**	**7,695**	**5,272**	**—**	**86,504**

17. PROPERTY, PLANT AND EQUIPMENT *(continued)*

Company	**Buildings** RMB'000
At 1 January 2011, 31 December 2011 and 1 January 2012, net of accumulated depreciation	—
Additions	6,959
Depreciation provided during the year	(50)
At 31 December 2012, net of accumulated depreciation	6,909
At 1 January 2011 and 31 December 2011:	
Cost	—
Accumulated depreciation	—
Net carrying amount	—
At 31 December 2012:	
Cost	6,959
Accumulated depreciation	(50)
Net carrying amount	6,909

As at 31 December 2012, a certificate of ownership in respect of a warehouse in Chengdu with a net carrying amount of approximately RMB6,875,000 (2011: RMB7,090,000) has not been issued by the relevant PRC authorities. The Group is in the process of obtaining the certificate.

18. PREPAID LAND LEASE PAYMENTS

	Group	
	2012 **RMB'000**	2011 RMB'000
Carrying amount at 1 January	**43,843**	30,206
Additions	**318**	14,375
Amortisation charged during the year	**(965)**	(738)
Carrying amount at 31 December	**43,196**	43,843
Current portion included in prepayments, deposits and other receivables	**(966)**	(930)
Non-current portion	**42,230**	42,913

The Group's leasehold land is situated in the PRC and is held under a medium term lease.

As at 31 December 2012, a certificate of land use right in respect of a piece of land in Shanghai with a net carrying amount of approximately RMB14,307,000 (2011: RMB14,283,000) has not been issued by the relevant PRC authorities. The Group is in the process of obtaining the certificate.

19. INVESTMENT PROPERTIES

Group	Investment properties RMB'000
At 1 January 2011, net of accumulated depreciation	5,712
Disposals	(16)
Depreciation provided during the year	(158)
At 31 December 2011 and 1 January 2012, net of accumulated depreciation	5,538
Depreciation provided during the year	(133)
	5,405
At 1 January 2011:	
Cost	5,923
Accumulated depreciation	(211)
Net carrying amount	5,712
At 31 December 2011:	
Cost	5,907
Accumulated depreciation	(369)
Net carrying amount	5,538
At 31 December 2012:	
Cost	5,907
Accumulated depreciation	(502)
Net carrying amount	5,405

The Group's investment properties are situated in the PRC and are leased to third parties under operating leases, further summary details of which are included in note 35(a) below.

The Group's investment properties were revalued on 31 December 2012 by Dezhou Tianqu Assets Appraisals Co., Ltd. (德州天衢資產評估有限公司), independent professionally qualified valuers, at RMB17,851,000 on an open market, existing use basis.

20. INVESTMENTS IN SUBSIDIARIES

	Company 2012 RMB'000	Company 2011 RMB'000
Unlisted, at cost	**3,794,283**	3,778,531

The amounts due from subsidiaries included in the Company's current assets of RMB126,315,000 (2011: RMB91,259,000) are unsecured, interest-free and are repayable on demand.

As at the end of the year, the Company has direct or indirect interests in the following subsidiaries, all of which have substantially similar characteristics to a private company incorporated in Hong Kong, the particulars of which are set out below:

Company name	Place and date of incorporation/ registration	Issued capital	Percentage of equity attributable to the Company Direct %	Indirect %	Principal activities
Doright Group Limited	BVI 30 October 2009	US$1	100	–	Investment holding
CEC Menswear Limited[(1)]	Hong Kong 11 July 2006	HK$100	–	100	Investment holding
Faith Enterprise Limited[(1)]	Hong Kong 5 June 2006	HK$100	–	100	Investment holding
Sky Trend Hong Kong Investment Limited[(1)]	Hong Kong 24 October 2007	HK$10,000	–	100	Investment holding
Shinemax Corporation Limited ("Shinemax")[(1)]	Hong Kong 26 October 2006	HK$1	100	–	Corporate office
London Fog (China) Limited ("London Fog (China)")[(1)]	Hong Kong 26 February 2009	RMB9,000,000	100	–	Holding trademarks and investment holding
Manhattan (China) Limited[(1)]	Hong Kong 11 April 2012	RMB10,000,000	75	–	Investment holding
Shanghai Doright Fashion Co., Ltd. (上海同瑞服飾有限公司) ("Shanghai Doright")[#*(2)]	PRC 6 August 2003	US$8,500,000	–	100	Manufacture and sale of menswear/women's wear and accessories
Dezhou Sino-Union Garment Co., Ltd. (德州中合服飾有限公司) ("DZ Sino-union")[#*(2)]	PRC 6 January 2005	US$600,000	–	100	Manufacture and sale of menswear and accessories
Guangdong Leaderway Garment Co., Ltd. (廣東利威製衣有限公司)[#*(3)]	PRC 25 March 1999	RMB3,000,000	–	100	Manufacture and sale of menswear and accessories
Shanghai Baowei Fashion Co., Ltd. (上海保威服飾有限公司)[#*(3)]	PRC 5 April 1999	RMB1,000,000	–	100	Sale of menswear and accessories
Shanghai Bolderway Fashion Co., Ltd. (上海保德威服飾有限公司)[#*(3)]	PRC 28 November 2001	RMB6,000,000	–	100	Sale of menswear/women's wear and accessories
Beijing Bolderway Fashion Co., Ltd. (北京保德威服飾有限公司)[#*(3)]	PRC 28 November 2003	RMB3,000,000	–	100	Sale of menswear/women's wear and accessories
Sichuan Bolderway Trading Co., Ltd. (四川保德威商貿有限公司)[#*(3)]	PRC 19 March 2004	RMB300,000	–	100	Retail trading of menswear and accessories

20. INVESTMENTS IN SUBSIDIARIES *(continued)*

Company name	Place and date of incorporation/ registration	Issued capital	Percentage of equity attributable to the Company Direct %	Indirect %	Principal activities
Guangzhou Ruitang Trading Co., Ltd. (廣州瑞唐貿易有限公司)#*(3)	PRC 24 May 2004	RMB500,000	–	100	Retail trading of menswear and accessories
Shanghai Jiancheng Trading Co., Ltd. (上海簡成商貿有限公司)#*(3)	PRC 31 May 2004	RMB3,000,000	–	100	Sale of menswear and accessories
London Fog (Shanghai) Fashion Co., Ltd. (倫頓弗格(上海)服飾有限公司)#(4)	PRC 31 May 2009	RMB10,000,000	–	100	Sale of menswear/women's wear and accessories
Shanghai Ruiguo Fashion Co., Ltd. (上海瑞國服飾有限公司)#(2)	PRC 14 June 2012	US$1,000,000	100	–	Sale of menswear/women's wear and accessories
Dezhou Shangyong Zhangui Co., Ltd. (德州中合商用展櫃有限公司) ("DZ Shangyong")#(3)(5)	PRC 22 March 2011	RMB500,000	–	100	Manufacture and sale of product showcases and accessories
Shanghai Ruihe Fashion Co., Ltd. (上海瑞合服飾有限公司)#(3)	PRC 5 September 2011	RMB5,000,000	–	100	Sale of menswear/women's wear and accessories
Shanghai Manhattan Fashion Co., Ltd. (上海曼克頓服飾有限公司)#(2)	PRC 6 September 2012	US$1,000,000	–	75	Sale of menswear/women's wear and accessories

The English names of the Company's subsidiaries incorporated/registered in the PRC represent the translated names of these companies as no English names have been registered.

* These companies are hereinafter collectively referred to as the "PRC Doright Group", which were acquired in 2006.

Notes:

(1) The statutory financial statements of these companies were prepared under Hong Kong Financial Reporting Standards and audited by Ernst & Young, certified public accountants registered in Hong Kong.

(2) Wholly-foreign-owned enterprises under the PRC law.

(3) Limited liability companies under the PRC law.

(4) A Sino-foreign equity joint venture under the PRC law.

(5) Pursuant to a resolution passed on 1 November 2012 by DZ Sino-union, the sole shareholder of DZ Shangyong, DZ Shangyong has been dissolved on 5 February 2013.

21. GOODWILL

As at 31 December 2012, the carrying value of goodwill was RMB70,697,000 (2011: RMB70,697,000).

No impairment loss provision for the carrying value of goodwill has been considered necessary by the Directors as at the end of the financial period. Impairment testing of goodwill is detailed in note 23 below.

22. OTHER INTANGIBLE ASSETS

Group	Licensing agreements RMB'000	Retail networks RMB'000	Trademarks RMB'000	Total RMB'000
At 1 January 2011, net of accumulated amortisation and impairment	—	3,964	67,138	71,102
Amortisation charged during the year	—	(249)	—	(249)
Exchange realignment	—	—	(3,124)	(3,124)
At 31 December 2011 and 1 January 2012, net of accumulated amortisation and impairment	—	3,715	64,014	67,729
Amortisation charged during the year	—	(249)	—	(249)
Exchange realignment	—	—	33	33
At 31 December 2012, net of accumulated amortisation and impairment	—	3,466	64,047	67,513
At 1 January 2011:				
Cost	84,668	4,981	67,138	156,787
Accumulated amortisation and impairment	(84,668)	(1,017)	—	(85,685)
Net carrying amount	—	3,964	67,138	71,102
At 31 December 2011:				
Cost	84,668	4,981	64,014	153,663
Accumulated amortisation and impairment	(84,668)	(1,266)	—	(85,934)
Net carrying amount	—	3,715	64,014	67,729
At 31 December 2012:				
Cost	84,668	4,981	64,047	153,696
Accumulated amortisation and impairment	(84,668)	(1,515)	—	(86,183)
Net carrying amount	—	3,466	64,047	67,513

The Group classified the "London Fog" trademarks as intangible assets with indefinite lives. The Group has performed impairment reviews of the carrying values of trademarks as at 31 December 2012 and 31 December 2011 based on a forecast of operating performance, cash flows and the key assumptions as detailed in note 23 below and has concluded that no impairment is required.

23. IMPAIRMENT OF GOODWILL AND INTANGIBLE ASSETS WITH INDEFINITE LIVES

Goodwill arising from the acquisition of the PRC Doright Group in 2006 has been allocated to the Group's CGU (the "Menswear CGU") for impairment testing.

The recoverable amount of the Menswear CGU has been determined based on a value in use calculation using cash flow projections from financial budgets covering a five-year period approved by senior management. For the year ended 31 December 2012, the discount rate applied to the cash flow projections is 19.0% (2011: 19.0%) and cash flows beyond the five-year period are extrapolated using a growth rate of 3% (2011: 3%) which does not exceed the projected long term average growth rate for relevant industry in the PRC.

The recoverable amount of the trademarks with indefinite lives has been determined based on a value in use calculation using cash flow projections from financial budgets covering a five-year period approved by senior management. For the year ended 31 December 2012, the discount rate applied to the cash flow projections is 20.0% (2011: 20.0%) and cash flows beyond the five-year period are extrapolated using a growth rate of 3% (2011: 3%) which does not exceed the projected long-term average growth rate for relevant industry in the PRC.

Assumptions were used in the value in use calculation of the Menswear CGU and the trademarks with indefinite lives. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill and trademarks:

Budgeted gross profit margins

Budgeted gross profit margins are based on average values achieved historically. These are adjusted over the budget period in accordance with anticipated efficiency improvements and expected market developments.

Discount rates

The discount rates used are before tax and reflect specific risks relating to the Menswear CGU and the trademarks with indefinite lives.

24. DEFERRED TAX

The movements in deferred tax assets and liabilities during the year are as follows:

Deferred tax assets

Group	Impairment of assets RMB'000	Unrealised profits on inventories RMB'000	Total RMB'000
At 1 January 2011	22,878	465	23,343
Deferred tax credited to the consolidated statement of comprehensive income during the year (note 13)	7,612	289	7,901
At 31 December 2011 and 1 January 2012	30,490	754	31,244
Deferred tax credited/(charged) to the consolidated statement of comprehensive income during the year (note 13)	11,614	(26)	11,588
At 31 December 2012	42,104	728	42,832

The Group had tax losses arising in the PRC of approximately RMB4,058,000 and RMB6,583,000 as at 31 December 2011 and 2012, respectively, that will expire in one to five years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the taxable losses can be utilised.

24. DEFERRED TAX *(continued)*

Deferred tax liabilities

Group	Fair value adjustments arising from acquisitions RMB'000	Withholding tax on distributable profits of the PRC subsidiaries RMB'000	Total RMB'000
At 1 January 2011	6,115	12,279	18,394
Deferred tax transferred out in respect of withholding tax paid by a PRC subsidiary	—	(4,000)	(4,000)
Deferred tax credited to the consolidated statement of comprehensive income during the year (note 13)	(185)	—	(185)
At 31 December 2011 and 1 January 2012	5,930	8,279	14,209
Deferred tax charged/(credited) to the consolidated statement of comprehensive income during the year (note 13)	(185)	5,000	4,815
At 31 December 2012	5,745	13,279	19,024

Pursuant to the PRC Corporate Income Tax Law (the "New CIT Law") which was approved and became effective on 1 January 2008, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in the PRC. The requirement is effective on 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between the PRC and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5%. The Group is therefore liable for withholding tax on dividends distributed by those subsidiaries established in the PRC in respect of earnings generated from 1 January 2008.

At 31 December 2012, the Group has not recognised deferred tax liabilities of RMB51,601,000 (2011: RMB33,823,000) in respect of temporary differences relating to the unremitted profits of the Group's subsidiaries established in the PRC, amounting to RMB1,032,016,000 (2011: RMB676,451,000), that would be payable on the distribution of these profits as the Company controls the dividend policy of these subsidiaries and it is probable that these profits will not be distributed in the foreseeable future.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

25. INVENTORIES

	Group	
	2012	2011
	RMB'000	RMB'000
Raw materials	**17,994**	19,107
Work in progress	**9,590**	13,964
Finished goods	**358,611**	303,383
	386,195	336,454

26. TRADE AND BILLS RECEIVABLES

	Group	
	2012	2011
	RMB'000	RMB'000
Trade receivables	**124,120**	106,504
Impairment	**(1,409)**	(1,409)
Trade receivables, net	**122,711**	105,095
Bills receivable	**252**	—
	122,963	105,095

The Group's trading terms with its customers are mainly on credit, except for third party retailers, where payment in advance is normally required. The credit period normally ranges from 30 to 90 days. The Group grants a longer credit period to those long-standing customers with good payment history.

Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management.

In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over these balances.

Trade receivables are non-interest-bearing and the carrying amounts of the trade and bills receivables approximate to their fair values.

26. TRADE AND BILLS RECEIVABLES *(continued)*

An aged analysis of the trade receivables as at 31 December 2011 and 2012, based on the invoice date and net of provision, and the balances of bills receivable are as follows:

	Group	
	2012	2011
	RMB'000	RMB'000
Trade receivables		
Within 60 days	**118,019**	99,596
61 to 90 days	**895**	2,521
91 to 180 days	**1,940**	2,537
181 to 360 days	**1,857**	441
	122,711	105,095
Bills receivable	**252**	—
	122,963	105,095

The bills receivable are due to mature within three months.

The movements in the provision for impairment of trade receivables are as follows:

	Group	
	2012	2011
	RMB'000	RMB'000
At 1 January	**1,409**	1,380
Impairment losses recognised (note 10)	**—**	29
At 31 December	**1,409**	1,409

The above provision for impairment of trade receivables is the full provision for individually impaired trade receivables. The individually impaired trade receivables relate to customers that were in financial difficulties or in default in payments.

26. TRADE AND BILLS RECEIVABLES *(continued)*

The aged analysis of the trade receivables that are neither individually nor collectively considered to be impaired is as follows:

	Group	
	2012	2011
	RMB'000	RMB'000
Neither past due nor impaired	**118,019**	99,596
1 to 180 days past due	**2,835**	5,058
181 to 360 days past due	**1,857**	441
	122,711	105,095

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the Directors are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

27. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Prepayments	**28,463**	36,593	**—**	29
Deposits and other receivables	**27,586**	12,266	**3,519**	—
	56,049	48,859	**3,519**	29

Other receivable of RMB1,800,000, as at 31 December 2011 and 2012, was impaired and fully provided for. The individually impaired other receivable related to a debtor that was in default in payments. The Group does not hold any collateral or other credit enhancements over the balance.

The carrying amounts of the other receivables which are neither past due nor impaired and included in the above balances relate to receivables for which there was no recent history of default. The carrying amounts of the financial assets included in the above balances approximate to their fair values.

28. STRUCTURED BANK DEPOSITS

	Group	
	2012	2011
	RMB'000	RMB'000
Structured bank deposits, in licensed banks in Mainland China, at amortised cost	**1,082,800**	245,000

The structured bank deposits have terms of less than one year and are denominated in RMB.

29. PLEDGED BANK DEPOSITS AND CASH AND CASH EQUIVALENTS

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash and bank balances	**104,751**	773,031	**2,604**	486,109
Time deposits	**274,143**	266,000	**266,143**	—
	378,894	1,039,031	**268,747**	486,109
Less: Bank deposits pledged for issuing bank acceptance notes	**—**	(3,952)	**—**	—
Cash and cash equivalents as stated in the consolidated statement of financial position	**378,894**	1,035,079	**268,747**	486,109

At the end of the reporting period, the cash and bank balances and time deposits of the Group denominated in RMB amounted to RMB99,840,000 (2011: RMB548,259,000). The RMB is not freely convertible into other currencies, however, under the Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term deposits are made for varying periods of between seven days and twelve months depending on the immediate cash requirements of the Group, and earn interest at the respective short term deposit rates. The bank balances and short term deposits are deposited with creditworthy banks with no recent history of default.

30. TRADE AND BILLS PAYABLES

An aged analysis of the trade payables as at 31 December 2011 and 2012, based on the invoice date, and the balances of bills payable are as follows:

	Group	
	2012	2011
	RMB'000	RMB'000
Trade payables		
Within 30 days	**36,645**	20,999
31 to 90 days	**3,616**	844
91 to 180 days	**407**	570
181 to 360 days	**157**	61
	40,825	22,474
Bills payable	**—**	3,952
	40,825	26,426

The trade payables are non-interest-bearing and are normally settled on terms of 30 to 45 days.

31. DEPOSITS RECEIVED, OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Advances from customers	**49,904**	88,708	**—**	—
Other payables	**55,339**	55,024	**—**	—
Accruals	**11,558**	47,590	**165**	16,092
Other taxes payable	**19,574**	5,894	**—**	—
	136,375	197,216	**165**	16,092

Other payables are non-interest-bearing and are due within one year.

32. ISSUED CAPITAL

Shares

	2012 HK$'000	2011 HK$'000
Authorised:		
1,000,000,000,000 (2011: 1,000,000,000,000) ordinary shares of HK$0.1 each	**100,000,000**	100,000,000
Issued and fully paid:		
3,445,450,000 (2011: 3,426,510,000) ordinary shares of HK$0.1 each	**344,545**	342,651
Equivalent to RMB'000	**280,661**	279,120

A summary of the transactions during the year in the Company's issued ordinary share capital is as follows:

	Notes	Number of shares in issue	Issued capital		Share premium account		Total	
			HK$'000	RMB'000	HK$'000	RMB'000	HK$'000	RMB'000
At 1 January 2011		–	–	–	–	–	–	–
Issue of shares of incorporation and Reorganisation		98,225	10	8	–	–	10	8
Capitalisation issue		2,946,651,775	294,665	240,031	(294,665)	(240,031)	–	–
Issue of new shares for the initial public offering (the "IPO")		479,760,000	47,976	39,081	738,830	601,845	786,806	640,926
		3,426,510,000	342,651	279,120	444,165	361,814	786,816	640,934
Share issue expenses		–	–	–	(54,258)	(44,071)	(54,258)	(44,071)
Proposed final 2011 dividend (note 15)		–	–	–	(252,007)	(204,113)	(252,007)	(204,113)
At 31 December 2011 and 1 January 2012		3,426,510,000	342,651	279,120	137,900	113,630	480,551	392,750
Issue of shares under over-allotment option	(a)	25,638,000	2,564	2,084	39,483	32,086	42,047	34,170
Repurchase and cancellation of shares	(b)	(6,698,000)	(670)	(543)	(9,341)	(7,574)	(10,011)	(8,117)
		3,445,450,000	344,545	280,661	168,042	138,142	512,587	418,803
Share issue expenses	(a)	–	–	–	(1,265)	(1,028)	(1,265)	(1,028)
Proposed final and special final 2012 dividends (note 15)		–	–	–	(166,777)	(137,114)	(166,777)	(137,114)
At 31 December 2012		3,445,450,000	344,545	280,661	–	–	344,545	280,661

32. ISSUED CAPITAL *(continued)*

Shares *(continued)*

Notes:

(a) On 30 December 2011, the sole global coordinator, UBS AG, Hong Kong Branch, partially exercised the over-allotment option on behalf of the international underwriters requiring the Company to issue and allot 25,638,000 additional shares (the "Over-allotment Shares"). The Over-allotment Shares have been issued and allotted by the Company at HK$1.64 per share, being the offer price under the IPO. Listing of and dealing in the Over-allotment Shares commenced on the Stock Exchange on 5 January 2012. In this regard, the net proceeds from the Over-allotment Shares approximated to HK$40,782,000 (equivalent to RMB33,142,000), of which RMB2,084,000 and RMB31,058,000 were included in the issued capital and share premium account, respectively.

(b) All ordinary shares repurchased during the year were cancelled before year end, and the issued share capital of the Company was accordingly reduced by the par value of the repurchased ordinary shares so cancelled. The premium paid on the repurchases of the ordinary shares, of HK$9,341,000 (equivalent to RMB7,574,000), were charged to the share premium account. An amount equivalent to the par value of the ordinary shares cancelled was transferred to the capital redemption reserve as set out in the consolidated statement of changes in equity.

Details of the repurchases during the year are summarised as follows:

Date of repurchases	Number of ordinary shares repurchased	Purchase price paid per share		Aggregate consideration paid	
		Highest HK$	Lowest HK$	HK$'000	RMB'000
12 December 2012	1,276,000	1.43	1.40	1,828	1,482
13 December 2012	2,100,000	1.47	1.43	3,098	2,512
14 December 2012	320,000	1.49	1.48	479	388
17 December 2012	698,000	1.50	1.50	1,052	853
18 December 2012	74,000	1.53	1.53	114	92
19 December 2012	2,230,000	1.56	1.48	3,440	2,790
	6,698,000			10,011	8,117

Share options

Details of the Company's share option schemes and the share options issued under the schemes are included in note 33 to the financial statements.

33. SHARE OPTION SCHEMES

The Company adopted a pre-IPO share option scheme (the "Pre-IPO Share Option Scheme") and a share option scheme (the "Share Option Scheme"), approved by the written resolutions of the shareholders passed on 25 November 2011 (the "Resolutions").

33. SHARE OPTION SCHEMES *(continued)*

Pre-IPO Share Option Scheme

The purpose of the Pre-IPO Share Option Scheme is to provide incentive and/or reward to the Directors, senior management and employees for their contribution to, and continuing efforts to promote the interests of, the Company. The principal terms of the Pre-IPO Share Option Scheme, approved by the Resolutions, are substantially the same as the terms of the Share Option Scheme except that:

(a) the subscription price per share under the Pre-IPO Share Option Scheme is HK$1.64;

(b) the total number of shares which may be issued upon the exercise of all share options granted under the Pre-IPO Share Option Scheme is 205,552,000 shares, representing approximately 6.00% of the enlarged issued share capital of the Company immediately after the completion of IPO and the capitalisation issue (assuming that the Over-allotment Option is not exercised);

(c) save for the share options which have been granted, no further share options will be granted under the Pre-IPO Share Option Scheme on or after the Listing Date; and

(d) each share option granted under the Pre-IPO Share Option Scheme has a three-year exercise period after the vesting of the relevant option.

All the share options under the Pre-IPO Share Option Scheme were granted on 9 December 2011 at a consideration of HK$1 paid by each participant.

Each of the above share options is subject to a vesting schedule of four years pursuant to which one-fourth (1/4) of the share options shall become vested and exercisable on 9 December 2012, 2013, 2014 and 2015, respectively.

Share options under the Pre-IPO Share Option Scheme do not confer rights on the holders to dividends or to vote at shareholders' meetings.

A summary of share option movements during the year is presented below:

	Year ended 31 December 2012		Year ended 31 December 2011	
	Weighted average exercise price HK$ per share	**Number of share options**	Weighted average exercise price HK$ per share	Number of share options
At beginning of year	**1.64**	**205,552,000**	—	—
Granted	**—**	**—**	1.64	205,552,000
Forfeited	**1.64**	**(6,328,000)**	—	—
At the end of year	**1.64**	**199,224,000**	1.64	205,552,000

33. SHARE OPTION SCHEMES *(continued)*

Pre-IPO Share Option Scheme *(continued)*

The fair value of the share options under the Pre-IPO Share Option Scheme granted was estimated at approximately RMB65,108,000 of which the Group recognised a share option expense of RMB31,928,000 during the year ended 31 December 2012 (2011: RMB1,529,000).

The fair value of the share options under the Pre-IPO Share Option Scheme granted was estimated as at the date of grant, using the binomial option pricing model, taking into account the terms and conditions upon which the share options were granted. The following table lists the inputs to the model used:

	First batch	Second batch	Third batch	Fourth batch
Dividend yield (%)	4.87	4.87	4.87	4.87
Expected volatility (%)	46.63	46.17	44.17	42.92
Risk-free interest rate (%)	0.58	0.75	0.90	1.03
Expected life of options (year)	3.94	4.94	5.94	6.94
Weighted average share price (HK$ per share)	1.49	1.49	1.49	1.49

The expected life of the share options is not necessarily indicative of the exercise patterns that may occur. The expected volatility may not necessarily reflect the actual outcome.

No other feature of the share options granted was incorporated into the measurement of fair value.

No share option was exercised during the year. As at 31 December 2012, the Company had 199,224,000 share options outstanding under the Pre-IPO Share Option Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 199,224,000 additional ordinary shares of the Company and additional share capital of HK$19,922,400 (equivalent to RMB16,154,000) and share premium of HK$306,804,960 (equivalent to RMB248,773,000) (before issue expenses).

At the date of approval of these financial statements, the Company had 199,224,000 share options outstanding under the Pre-IPO Share Option Scheme, which represented approximately 5.78% of the Company's shares in issue as at that date.

33. SHARE OPTION SCHEMES *(continued)*

Share Option Scheme

The Company operates a share option scheme (the "Share Option Scheme") for the purpose of providing incentive and/or reward to eligible participants for their contribution to and continuing efforts to promote the interest of the Company. Eligible participants of the Share Option Scheme include a) any proposed executive director of, manager of, or other employee holding an executive, managerial, supervisory or similar position in any member of the Group, any full-time or part-time employee, or a person for the time being seconded to work full-time or part-time for any member of the Group; b) a director or proposed director (including an independent non-executive director) of any member of the Group; c) a direct or indirect shareholder of any member of the Group; d) a supplier of goods or services to any member of the Group; e) a customer, consultant, business or joint venture partner, franchisee, contractor, agent or representative of any member of the Group; f) a person or entity that provides design, research, development or other support or any advisory, consultancy, professional or other services to any member of the Group; and g) an associate of any of the foregoing persons. The Share Option Scheme became effective on 9 December 2011 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of shares to be issued upon exercise of all outstanding share options granted and yet to be exercised under the Share Option Scheme and any other share options granted and yet to be exercised under any other scheme of the Company shall not, in aggregate, exceed 6% of the total number of shares in issue on the Listing Date (assuming that the Over-allotment Option is not exercised) until the expiration of the period from the Listing Date to the fourth anniversary of the Listing Date and 30% of the shares of the Company in issue from time to time. The maximum number of shares issuable under share options to each eligible participant in the Share Option Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or a substantial shareholder of the Company, or to any of their respective associates, are subject to approval in advance by the independent non-executive directors, excluding the independent non-executive director who or whose associates are the grantee. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their respective associates, in excess of 0.1% of the shares of the Company in issue at any time and with an aggregate value (based on the closing price of the Company's shares at the date of grant) in excess of HK$5,000,000, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 30 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the board of Directors (the "Board"), and commences after a certain vesting period and ends on a date which is not later than ten years from the date of grant of the share options.

33. SHARE OPTION SCHEMES *(continued)*

Share Option Scheme *(continued)*

The exercise price in respect of any particular option shall be such price as the Board may in its absolute discretion determine at the time of grant of the relevant option (and shall be stated in the letter containing the offer of the grant of the option) but the exercise price shall be at least the highest of: (a) the closing price of a share as stated in the Stock Exchange's daily quotation sheet on the offer date, which must be a business day; (b) the average closing price of a share as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the offer date; and (c) the nominal value of a share.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

As at 31 December 2012 and the date of approval of these financial statements, no share option was granted and outstanding under the Share Option Scheme.

34. RESERVES

Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity.

(a) The merger reserve represents the difference between the nominal value of shares of the subsidiaries acquired pursuant to the Reorganisation and the nominal value of the Company's shares issued in exchange therefor.

(b) The acquisition reserve represents the differences between considerations paid and the book value of the share of net assets acquired in respect of the acquisition of non-controlling interests in the PRC Doright Group.

(c) In accordance with the Company Law of the PRC, the Company's subsidiaries registered in the PRC are required to appropriate 10% of the annual statutory net profit after tax (after offsetting any prior years' losses), determined in accordance with generally accepted accounting principles in the PRC, to the statutory surplus reserve. When the balance of the statutory surplus reserve reaches 50% of each entity's registered capital, any further appropriation is optional. The statutory surplus reserve can be utilised to offset prior years' losses or to increase the registered capital. However, the balance of the statutory surplus reserve must be maintained at a minimum of 25% of the registered capital after these usages.

34. RESERVES *(continued)*

Company

	Share premium account RMB'000	Capital redemption reserve RMB'000	Contributed surplus RMB'000	Share option reserve RMB'000	Exchange fluctuation reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
As at 7 March 2011 (date of incorporation)	–	–	–	–	–	–	–
Total comprehensive loss for the year	–	–	–	–	(97,891)	(33,989)	(131,880)
Reserve arising from the reorganisation	–	–	3,873,324	–	–	–	3,873,324
Capitalisation issue	(240,031)	–	–	–	–	–	(240,031)
Issue of shares for IPO	601,845	–	–	–	–	–	601,845
Share issue expenses	(44,071)	–	–	–	–	–	(44,071)
Equity-settled share option arrangements	–	–	–	1,529	–	–	1,529
Proposed final 2011 dividend	(204,113)	–	–	–	–	–	(204,113)
As at 31 December 2011 and 1 January 2012	113,630	–	3,873,324	1,529	(97,891)	(33,989)	3,856,603
Total comprehensive income for the year	–	–	–	–	1,800	5,132	6,932
Issue of shares	32,086	–	–	–	–	–	32,086
Share issue expenses	(1,028)	–	–	–	–	–	(1,028)
Equity-settled share option arrangements	–	–	–	31,928	–	–	31,928
Transfer of share option reserve upon the forfeiture of share options	–	–	–	(62)	–	62	–
Repurchase and cancellation of shares	(7,574)	543	–	–	–	(543)	(7,574)
Proposed final and special final 2012 dividends	(137,114)	–	(142,260)	–	–	–	(279,374)
As at 31 December 2012	–	543	3,731,064	33,395	(96,091)	(29,338)	3,639,573

The Company's contributed surplus represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the corporate reorganisation (the "Reorganisation") detailed in the prospectus of the Company dated 29 November 2011, over the nominal value of the Company's shares issued in exchange therefor.

Pursuant to the Companies Law (2001 Second Revision) of the Cayman Islands, the share premium account and the contributed surplus are distributable to the shareholders of the Company, provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payments in note 5 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits should the related options expire or be forfeited.

35. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (note 19 to the financial statements) under operating lease arrangements, with leases negotiated for terms ranging from one to three years.

At 31 December 2012, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2012	2011
	RMB'000	RMB'000
Within one year	**539**	224
In the second to fifth years, inclusive	**398**	256
	937	480

(b) As lessee

The Group leases certain of its retail outlets and office premises under non-cancellable operating lease arrangements. Leases for properties are negotiated for terms ranging from one to three years.

At 31 December 2012, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2012	2011
	RMB'000	RMB'000
Within one year	**9,764**	2,574
In the second to fifth years, inclusive	**4,298**	1,008
	14,062	3,582

36. COMMITMENTS

In addition to the operating lease commitments detailed in note 35(b), the Group had the following capital commitments at the end of the reporting period:

	Group	
	2012	2011
	RMB'000	RMB'000
Contracted, but not provided for:		
Land and buildings	**—**	1,875
Other intangible assets — trademarks	**50,284**	—
Other intangible assets — licensing agreements	**13,828**	—
	64,112	1,875

37. CONTINGENT LIABILITY

The Group had no significant contingent liability as at 31 December 2011 and 2012.

38. RELATED PARTY TRANSACTIONS

Compensation of key management personnel of the Group, including directors' remuneration as detailed in note 11 above, is as follows:

	Group	
	2012	2011
	RMB'000	RMB'000
Fees	**2,434**	1,316
Salaries, allowances and benefits in kind	**4,364**	3,138
Equity-settled share option expenses	**26,553**	1,340
Pension scheme contributions	**143**	88
Total compensation paid to key management personnel	**33,494**	5,882

None of the transactions with related parties as described above falls under the definition of "connected transaction" or "continuing connected transaction" under Chapter 14A of the Listing Rules.

39. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

	Group					
	2012			2011		
Financial assets	**Loans and receivables RMB'000**	**Held-to-maturity investments RMB'000**	**Total RMB'000**	Loans and receivables RMB'000	Held-to-maturity investments RMB'000	Total RMB'000
Trade and bills receivables	**122,963**	**–**	**122,963**	105,095	–	105,095
Financial assets included in prepayments, deposits and other receivables (note 27)	**27,586**	**–**	**27,586**	12,266	–	12,266
Structured bank deposits	**–**	**1,082,800**	**1,082,800**	–	245,000	245,000
Pledged bank deposits	**–**	**–**	**–**	3,952	–	3,952
Cash and cash equivalents	**378,894**	**–**	**378,894**	1,035,079	–	1,035,079
	529,443	**1,082,800**	**1,612,243**	1,156,392	245,000	1,401,392

	Group	
	Financial liabilities at amortised cost	
Financial liabilities	**2012 RMB'000**	2011 RMB'000
Trade and bills payables	**40,825**	26,426
Financial liabilities included in deposits received, other payables and accruals (note 31)	**55,339**	55,024
	96,164	81,450

39. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

Financial assets	Company Loans and receivables 2012 RMB'000	2011 RMB'000
Financial assets included in prepayments, deposits and other receivables (note 27)	**3,519**	—
Amounts due from subsidiaries	**126,315**	91,259
Cash and cash equivalents	**268,747**	486,109
	398,581	577,368

As at 31 December 2012 and 2011, there is no financial liability of the Company.

40. FAIR VALUE OF FINANCIAL INSTRUMENTS

The financial assets and liabilities of the Group and the Company at 31 December 2011 and 2012 are detailed in note 39 to the financial statements.

At 31 December 2011 and 2012, the fair values of the Group's financial assets and financial liabilities approximated to their carrying amounts.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The fair values of these financial assets and financial liabilities approximate to their respective carrying amounts largely due to the short term maturities of these instruments.

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash and cash equivalents and structured bank deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and bills receivables and trade and bills payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Directors review and agree policies for managing each of these risks and they are summarised below:

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Interest rate risk

The Group has no significant interest-bearing assets other than cash and cash equivalents (note 29) and structured bank deposits (note 28). The Group does not have any significant exposure to risk of changes in market interest rates as the Group's debt obligations are minimal. The Group has not used any financial instruments to hedge its exposure to interest rate risk during the reporting period.

Foreign currency risk

All of the Group's turnover and substantially all of the Group's cost of sales and operating expenses are denominated in RMB. Accordingly, the transactional currency exposures of the Group are not significant. However, the Group's financial assets and liabilities including certain cash and cash equivalents denominated in Hong Kong dollars ("HK$") and United States dollars ("US$") are subject to foreign currency risk. Therefore, the fluctuations in the exchange rates of RMB against foreign currencies could affect the Group's results of operations.

There are limited hedging instruments available in the PRC to reduce the Group's exposure to exchange rate fluctuations between RMB and other currencies. To date, the Group has not entered into any hedging transactions in an effort to reduce the Group's exposure to foreign currency exchange risks. While the Group may decide to enter into hedging transactions in the future, the availability and effectiveness of these hedges may be limited and the Group may not be able to hedge the Group's exposure successfully, or at all.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the HK$ against RMB exchange rate, with all other variables held constant, of the Group's equity (due to changes in the fair value of monetary assets and liabilities):

	Increase/ (decrease) in HK$ exchange rate	**Increase/ (decrease) in equity***
	%	RMB'000
31 December 2012		
If RMB weakens against HK$	**5**	**17,424**
If RMB strengthens against HK$	**(5)**	**(17,424)**
31 December 2011		
If RMB weakens against HK$	5	30,278
If RMB strengthens against HK$	(5)	(30,278)

* Excluding retained profits.

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Credit risk

There are no significant concentrations of credit risk within the Group as the Group's trade and bills receivables are widely dispersed among different customers. Further quantitative data in respect of the Group's exposure to credit risk arising from trade and bills receivables and other receivables are disclosed in notes 26 and 27.

The credit risk of the Group's other financial assets, which mainly comprise cash and cash equivalents and structured bank deposits, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these financial assets.

Liquidity risk

The Group monitors its exposure to liquidity risk by monitoring the current ratio, which is calculated by comparing the current assets with the current liabilities.

The Group's policy is to maintain a balance between continuity of funding and flexibility through the use of bank loans.

The maturity profile of the Group's financial liabilities at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

	31 December 2012		
	On demand RMB'000	**Less than 1 year RMB'000**	**Total RMB'000**
Trade and bills payables	**—**	**40,825**	**40,825**
Other payables	**—**	**55,339**	**55,339**
	—	**96,164**	**96,164**

	31 December 2011		
	On demand RMB'000	Less than 1 year RMB'000	Total RMB'000
Trade and bills payables	—	26,426	26,426
Other payables	—	55,024	55,024
	—	81,450	81,450

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and shareholders' value. The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the reporting period.

The Group monitors capital using a gearing ratio, which is net debt divided by capital plus net debt. Net debt includes trade and bills payables and other payables less cash and cash equivalents and pledged bank deposits. Capital represents equity attributable to owners of the parent. The gearing ratios as at the end of the reporting periods were as follows:

	2012 **RMB'000**	2011 RMB'000
Trade and bills payables	**40,825**	26,426
Other payables	**55,339**	55,024
Less: Cash and cash equivalents	**(378,894)**	(1,035,079)
Pledged bank deposits	**—**	(3,952)
Net debt/(assets)	**(282,730)**	(957,581)
Capital — equity attributable to owners of the parent	**1,969,003**	1,656,058
Capital and net debt	**1,686,273**	698,477
Gearing ratio	**N/A**	N/A

42. EVENT AFTER THE REPORTING PERIOD

The following significant event took place subsequent to 31 December 2012:

Pursuant to a resolution passed on 1 November 2012 by DZ Sino-union, the sole shareholder of DZ Shangyong, DZ Shangyong has been dissolved on 5 February 2013.

43. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board on 27 March 2013.

Financial Summary

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements, is set out below:

	Year ended 31 December				
	2012	2011	2010	2009	2008
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Results					
REVENUE	**1,407,777**	1,248,026	909,991	648,918	505,934
Cost of sales	**(353,325)**	(298,124)	(215,735)	(190,592)	(150,190)
Gross profit	**1,054,452**	949,902	694,256	458,326	355,744
Other income and gains, net	**45,509**	26,122	15,178	14,425	10,150
Selling and distribution costs	**(443,595)**	(385,087)	(284,771)	(230,150)	(198,601)
Administrative expenses	**(75,426)**	(33,581)	(43,368)	(40,701)	(46,907)
Other expenses	**(1,424)**	(17,802)	(11,838)	(3,306)	(2,033)
Finance income	**45,445**	16,262	5,843	3,162	1,549
Finance costs	**—**	—	—	—	(110)
PROFIT BEFORE TAX	**624,961**	555,816	375,300	201,756	119,792
Income tax expense	**(164,706)**	(144,590)	(111,393)	(53,485)	(29,011)
PROFIT FOR THE YEAR	**460,255**	411,226	263,907	148,271	90,781
Attributable to:					
Owners of the parent	**460,246**	408,226	262,573	150,168	80,456
Non-controlling interests	**9**	3,000	1,334	(1,897)	10,325

	As at 31 December				
	2012	2011	2010	2009	2008
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Assets, Liabilities and Non-controlling interests					
TOTAL ASSETS	**2,342,082**	2,074,322	1,254,483	873,435	613,944
TOTAL LIABILITIES	**(370,603)**	(413,712)	(529,087)	(413,119)	(377,783)
Non-controlling interests	**2,476**	4,552	29,137	27,803	4,500