年報 2011

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

LO Peter
ZHANG Yongli
SUN David Lee
HUANG Xiaoyun

NON-EXECUTIVE DIRECTOR

LI Guoqiang

INDEPENDENT NON-EXECUTIVE DIRECTORS

KWONG Wilson Wai Sun
CUI Yi
YEUNG Chi Wai

COMPANY SECRETARY

MAK Yue Ping *(HKICPA, FCCA)*

AUTHORISED REPRESENTATIVES

LO Peter
SUN David Lee

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

REGISTERED OFFICE

Walker House
87 Mary Street
George Town
Grand Cayman
KY1-9005
Cayman Islands

HEAD OFFICE IN THE PRC

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 610, East Ocean Centre
98 Granville Road
Tsim Sha Tsui East
Kowloon
Hong Kong

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 BANKER

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

LEGAL ADVISOR

Herbert Smith

COMPLIANCE ADVISER

Huntington Asia Limited

AUDITOR

Ernst & Young

Chairman's Statement

China Outfitters Holdings Limited (the "Company") erected another milestone on the road of its corporate development by going public and listed on the Main Board of Hong Kong Stock Exchange on 9 December 2011. As a result, its shareholder base expanded and its equity increased, in particular, three international funds, namely KKR, Everbright and Sequoia, have been participated in the initial public offering ("IPO") as cornerstone investors. The listing improves the Company's transparency and market position, which have beneficial to the future business development of the Company. While being pleased that the Company would obtain a greater development space, the management was also aware of the need to strengthen the Company's operating efficiency so as to maintain a satisfactory return rate.

2011 was a year of extreme uncertainties for the global economy. After the financial tsunami in 2008, governments moved to rescue their economies, especially the collapsing financial sector, by adopting various different policies in an attempt to avoid the repetition of the mistakes made by the U.S. government in policy-making at the time of the Great Depression of the American economy in the 1930s; China's policy was to increase direct investments in fixed assets and to expand domestic consumption. The funding requirement burden went to both the central and local governments. The financing platforms of the local governments were also built. However, this situation led to a rapid increase in the prices of commodities and assets. The adverse effect of inflation was that the assets and future income of all were redistributed and the gap between the rich and the poor was widened; inflation could further give rise to inflation expectation, which accelerated the rise of asset prices, leading to the instability of the society; and the policy of macro-economic control was made and implemented for the main purpose of decreasing money supply and controlling commodity prices and real estate demand. As land is the resources under the control of the local governments, the shrinkage of real estate sector also affected the capacity of financing and debt-servicing of the local governments. Exports also slowed down due to the contraction of major international markets. In such an environment of uncertainties, the Company still managed to maintain its consistent excellence of performance in 2011. I believe that our keys to the sustained growth of the Company are our business model, the strategy of operation paying attention to risks and seeking an increase in profitability, the corporate culture of taking the Company's interests as core values, as well as the implementation ability of the management.

China's sustained growth over the past 30 years mainly depended on its "pass the river by touching the stones on riverbed (one step a time)" strategy in the process of economic reform and the implementation of opening-up policy. Its planned economy developed into a market economy with socialist characteristics. The entire economic system was continuously consolidated; different economic sectors were opened up in different periods to release growth potentials. The non-strategic industries became open to the private sector and foreign investments. In the meantime, state-owned enterprises were supported when they conducted industry consolidation by taking advantage of domestic and international capital markets. The investments of private or foreign enterprises were restrained in the strategic industries. Their consolidation was under the guidance of certain policies: in the non-strategic industries, a number of leading enterprises founded in the sectors that more apparently affect people's daily lives, and a number of preferential policies and administrative means were adopted to support them to accelerate their development; other non-strategic markets were opened up, and their consolidation mainly depended on the performance of market forces. In the past, China's economic growth was mainly driven by exports and fixed asset investments. The further goal of China's economic development focuses on sustainable development, including an increase in the demand of domestic market, the performance of urbanization and the development of agricultural economy. Increasing personal income and expanding the middle class are essential to the increase of domestic market demand. At the same time, urbanization will inevitably bring about a large number of infrastructure constructions and development of industrialization. Urbanization also stimulates consumption. The mobility of social classes will accelerate and the middle class will emerge and expand. The market change will accelerate, leading to the continuous appearance of some newly emerging industries and faster division and subdivision of the markets. Services sector will also have room for expansion. In China's existing political and economic systems, the local governments' power is very large to determine the development of non-strategic industries in the areas under their jurisdiction. It is very common for the local governments to support local enterprises, and the formation of competition between different regions continues to boost overall economic development. Indeed, the average firm size is relatively small according to international standard. Yet this dictates that the markets of non-strategic industries in China, especially the consumer market, are generally regional, highly competitive and fragmental markets. There are so many factors that affect the decisions made by individuals for consumption, including the overall economic growth, personal income, savings rate, market sentiment, confidence in the future and other economic and emotional factors; it is therefore estimated that China's domestic consumption will continue to grow rapidly in the future, but the increased government spending and investment are also necessary to support the high growth of the world's second largest economy. Another aspect of concern is that the RMB exchange rate hikes, but domestic purchasing power declines. Export growth will give rise to the increase in RMB supply and hence increasing inflationary pressure. Export sector also suffers the blow of increased costs and reduced income in real terms. As such, the profitability of domestic sales is higher than that of exports, but for lack of well-known brand names and sales network, enterprises must cooperate with local operators. These production bases constitute a supply base of China's garment industry that provides low cost and high quality goods.

China's consumer market has changed rapidly in the past 30 years along with the economic reform and the implementation of opening-up policy. Unlike the past when the choices of consumer goods were inadequate, the market now provides an entire range of consumer goods. Consumer behaviour changed in different age groups. The market in which consumer behaviour was dictated by sales channels has been replaced by the market in which the influence of brand names keeps on increasing; the market that purely satisfied the necessity of function has grown into the market that satisfies people's pursuit of personal goals and values. Domestic consumer market is only an infant market indeed and there is still a large potential for the growth of the market demand. Naturally, any market changing quickly and keeping on growing fast involves very high risks accordingly. The risks of China's garment market include, among others, those that may be given rise to in the dynamic changes of consumers (including changes of age groups and consumer behaviour), in the selection of price framework and sales channels, and in the realisation of cost-effectiveness (including the cost of sales and the efficiency of supply chain).

The entire business model of the Company aims at sustainable development and satisfactory return in the Chinese apparel market and is designed on the basis of the goals and values of the consumers. In the past, the Company continuously made efforts to understand the fast changing goals and values of the target groups of consumers, to meticulously cultivate sales channels, to optimize supply chains and to seek the development of the brand names that is suitable to the Chinese market. These efforts now result in the formation of a stable market for the Company's brand names and products and a high-efficiency, low-cost supply chain system. At the same time, as the Company can quickly understand the target groups of consumers in depth, the attention paid to the demand of consumers has been extended to the cultivation of the features and functions of the brand names, deepening the connection with consumers and enhancing the advantages of the brand names in the long run.

The Company's core business is mid-to-high men's leisure wear with city as the business units and sales channel concentrated in the primary locations of each city's leading shopping malls. The design, colour, fabric, cutting and size of our products on the purpose of meeting the want and need of target consumers with a desirable shopping environment. The discount policy is also a main part of the entire business model. We adhere to the minimum discount to lower consumers' expectations of future price reductions and maintain the position of brand names. Concentrating on high-end men's leisure wear market is mainly because this is a market with a large development potential, lower risk and higher rate of return. On this basis, we can develop our products along different types of casual concepts, such as the concepts of outdoor, leisure, simple business, and we can also enter the market of relatively formal wears. Furthermore, we can develop leisure clothes suitable for women. The series of JEEP ladies launched by the Company in the fourth quarter of 2011 was well accepted in the market. The Company has opened more than 30 retail points as of 31 December 2011, which is believed to become another highlight of the Company's business soon. Sales channels are also changing in China, and the development of retail outlets was very fast in recent years. Actually, looking at the development of the retail outlets in foreign countries, we understand that the main customers of the retail outlets in foreign countries are Chinese tourists. It can be estimated that the retail outlets will inevitably grow in China. The Company has entered into the mainstream retail outlets in China, with a rapid growth of its sales year by year. Another phenomenon is that the development of shopping malls is faster than that of department stores. The Company has also started to increase the retail points in the shopping malls.

In 2012, the Company will continue its efforts as always to meticulously cultivate sales channel, optimize supply chains and seek the development of the brand names suitable for the Chinese market, in order to maintain the sustainable growth of the Company. There is no business model that is everlasting because the society and people's desire are changing. We can do nothing but maintain the Company's incentives and adhere to good corporate culture, so as to keep our market leadership and raise the Company's value and shareholder return.

Management Discussion & Analysis

OPERATIONS REVIEW

The year of 2011 marked a significant milestone in the development of our Group. Thanks to the efforts and contributions by all of our colleagues and the support by our shareholders and investors, our Company was successfully listed on the Stock Exchange on 9 December 2011 (the "Listing Date").

We are pleased to announce our first annual results after the listing, which show a significant growth in the profit attributable to owners of the Company from RMB262.6 million in 2010 to RMB408.2 million in 2011 which exceeds the forecast of RMB406.2 million as set out in the prospectus of our Company dated 29 November 2012 ("Prospectus").

Sales network expansion

The expansion of our sales network to 1,102 retail points (2010: 886 retail points) was one of the key drivers to our Group's success in 2011. Our network expansion strategy, with a balanced mix of retail points operated by ourselves in major cities and third-party retailers focused in other cities, had allowed us to grow rapidly and penetrate the vast PRC menswear market effectively. As at 31 December 2011, our sales network included a total of 475 self-operated retail points and 627 retail points operated by third-party retailers, located in 257 cities across 31 provinces, autonomous regions and municipalities in China.

Retails points operated by ourselves and third party retailers enable us to have direct contact with target customers so as to respond to and capture new market opportunities arising from changes to consumer tastes and preferences. "London Fog", one of our brands, experienced good demand from targeted consumers and was able to expand to a total of 121 retails points as at 31 December 2011, a 47.6% increase from 82 retails points as at 31 December 2010.

Design and product development

In 2011, our Group increased our collections and added a new product line. We commenced the design of womenswear products based on the themes and styles of our menswear products under the "JEEP" brand and launched these products in the fall/winter collection. By the end of 2011, we had over 30 "JEEP"-lady retail points.

The following table sets out 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 2011 and 2010:

	As at 31 December					
	2011			2010		
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	**171**	**382**	**553**	141	293	434
— lady	**20**	**13**	**33**	—	—	—
"Santa Barbara Polo & Racquet Club" ("SBPRC")	**161**	**171**	**332**	139	154	293
"London Fog"	**60**	**61**	**121**	36	46	82
Others	**63**	**—**	**63**	77	—	77
Total	**475**	**627**	**1,102**	393	493	886

Product display enhancement

One of the Group's initiatives in 2011 was to enhance the layout of the retail points and the way to display our products. Every brand in our Group offers a distinct style, carries a unique philosophy and targets a specific customer group. We believe continuous enhancement of the way to display our products could provide better shopping experience for targeted consumers. Based on the successful experience in the "JEEP" retail points, an enhancement project is being rolled out to all other brands such as "JEEP"-lady, "SBPRC" and "London Fog".

Procurement & production

The Group had fine-tuned and standardized the operational procedures from raw material and apparel products procurement to products delivery. We also purchased additional equipment to enhance the productivity of our Dezhou production facilities in 2011. The objective of these initiatives is to ensure the Group is able to deliver the best products to our consumers in a cost-efficient manner. The Group's supply chain model has proven to be effective, contributing to the successful launching of "JEEP"-lady in the fall/winter collection.

Human resources

We provide induction programmes and continuous training, a safe and comfortable workplace and development opportunities to our employees. In addition, we award bonuses and have share option schemes in place to reward and retain a high caliber team.

We strive to continuously maintain good working relations with our employees. We believe that our management policies, working environment, development opportunities and employee benefits have contributed to building good relations and employee retention.

Looking ahead

"London Fog" and "JEEP"-lady will remain as our focus in 2012, after experiencing good market response from our targeted consumers in 2011.

We will continue to excel in customer services and to enhance our product display to provide consumers with a more pleasant shopping experience.

Our Group will explore more sales channels and locations to boost our sales, including outlets, airports, shopping malls and internet sales platforms, aiming to increase our revenue and profitability.

Our Group is always on the lookout for new brands to add to our portfolio, in particular, those widely recognised international brands of mid-to-high end, which we believe enjoy a good potential in achieving a synergy with the Chinese culture in terms of style, philosophy, brand management and positioning, through licensing, acquisition or establishing joint ventures with these brand owners.

FINANCIAL REVIEW

Revenue

Our revenue increased by RMB338.0 million, or approximately 37.1%, from RMB910.0 million in 2010 to RMB1,248.0 million in 2011. Such increase in revenue was mainly attributable to the increased number of retail points from 886 as at 31 December 2010 to 1,102 as at 31 December 2011 as well as the increase in same-store sales. The increase in same-store sales was mainly attributable to the increase in sales volume at the same stores due to the increased demand for our products.

By Sales channel

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

	Year ended 31 December			
	2011		2010	
	Revenue RMB million	**% of total revenue**	Revenue RMB million	% of total revenue
Sales at self-operated retail points	**736.4**	**59.0%**	572.2	62.9%
Sales to third-party retailers	**511.6**	**41.0%**	337.8	37.1%
Total	**1,248.0**	**100.0%**	910.0	100.0%

By Brand

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

	Year ended 31 December			
	2011		2010	
	Revenue RMB million	**% of total revenue**	Revenue RMB million	% of total revenue
Licensed brands	**1,171.3**	**93.9%**	862.7	94.8%
Self-owned brands	**76.7**	**6.1%**	47.3	5.2%
Total	**1,248.0**	**100.0%**	910.0	100.0%

The revenue contributed from self-owned brands increased from 5.2% in 2010 to 6.1% in 2011, mainly driven by "London Fog" which benefited from strong demand from targeted consumers during the year. This reflected our successful enhancement of the brand value of "London Fog", which is highly recognised by consumers with a high income lifestyle who are in pursuit of a higher quality of life and personal image.

Cost of sales

Our cost of sales increased by RMB82.4 million, or approximately 38.2%, from RMB215.7 million in 2010 to RMB298.1 million in 2011, which was in line with the growth of our sales.

Gross profit and gross profit margin

Our gross profit increased by RMB255.6 million, or approximately 36.8%, from RMB694.3 million in 2010 to RMB949.9 million in 2011. Our overall gross profit margin was approximately 76.3% in 2010 and 76.1% in 2011. The overall gross profit margin remained relatively stable within the same digit percentage level as in 2010, mainly attributable to our successful pricing strategy including mark-up to offset the general increase in our inventory cost, while keeping our sales volume in strong growth. Without taking into account the inventory provision, our gross profit margin for 2010 and 2011 was approximately 80.4% and 79.9%, respectively.

Other income and gains

Our other income and gains increased by RMB10.9 million, or approximately 71.7%, from RMB15.2 million in 2010 to RMB26.1 million in 2011, primarily due to the increase in subsidy income from the local governments.

Selling and distribution costs

Our selling and distribution costs increased by RMB100.3 million, or approximately 35.2%, from RMB284.8 million in 2010 to RMB385.1 million in 2011 primarily due to the increases in concession fees, marketing staff costs, royalty fees and department store charges, consistent with the growth of our sales.

Administrative expense

Our administrative expenses decreased by RMB9.8 million, or approximately 22.6%, from RMB43.4 million in 2010 to RMB33.6 million in 2011, primarily due to (i) the decrease in administrative staff costs as we accrued a performance bonus of RMB16.6 million for our senior management and directors in 2010 while no such performance bonus was accrued in 2011; and (ii) the decrease in amortisation of intangible assets as the recognised value of the licence agreement of our SBPRC brand, which arose from the business combination in 2006, that intangible assets having been fully amortised in February 2010.

Other expenses

Our other expenses increased from RMB11.8 million in 2010 to RMB17.8 million in 2011 were mainly due to the increase in listing expenses from RMB7.3 million in 2010 to RMB17.8 million in 2011.

Finance income

Our finance income increased to RMB16.3 million in 2011 as compared to RMB5.8 million in 2010 due to the increase in interest income from cash and cash equivalents as a result of the increase of our operating profit.

Profit before tax

As a result of the foregoing factors, our profit before tax increased by RMB180.5 million, or approximately 48.1%, from RMB375.3 million in 2010 to RMB555.8 million in 2011.

Income tax expense

Our income tax increased by RMB33.2 million, or approximately 29.8%, from RMB111.4 million in 2010 to RMB144.6 million in 2011 due to the increase of our profit before tax.

Profit for the year

As a result of the foregoing, our profit for the year increased by RMB147.3 million, or approximately 55.8%, from RMB263.9 million in 2010 to RMB411.2 million in 2011.

Profit attributable to owners of the parent

Profit attributable to owners of our Company increased by RMB145.6 million, or approximately 55.4%, from RMB262.6 million in 2010 to RMB408.2 million in 2011.

Working capital management

In the year ended 31 December 2011, to cope with our expanding sales networks and the growth of our same-store sales, we maintained a higher level of inventory to ensure sufficient stock supply, resulted in an increase of inventory turnover days by 32 days to 336 days.

Trade receivable and payable turnover days were maintained at 29 days and 35 days respectively for the year.

Major working capital ratios	2011	2010
Inventory turnover days	**336**	304
Trade receivable turnover days	**29**	32
Trade payable turnover days	**35**	41

Financial position and liquidity

Our Group continued to enjoy a strong financial position, generated from normal business operation with cash inflows from operating activities amounting to RMB280.3 million for the year ended 31 December 2011.

Banking borrowings

As at 31 December 2011, our Group had no bank borrowings (31 December 2010: Nil).

Pledge of Assets

As at 31 December 2011, deposits with certain banks with a total amount of RMB4.0 million (2010: RMB14.8 million) was pledged for issuing bank acceptance notes. The pledged bank deposits will be released upon the settlement of the relevant payables.

Foreign exchange management

All of our Group's turnover and substantially all of our Group's cost of sales and operating expenses are denominated in Renminbi. The transactional currency exposures of our Group are not significant. Accordingly, our Group has no hedging arrangement in place with respect to the foreign exchange exposure during the year.

Contingent Liabilities

As at 31 December 2011, the Group did not have any material contingent liabilities.

Use of proceeds from initial public offering ("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 (as described in the announcement of our Company dated 4 January 2012). Since the Listing Date and up to 31 December 2011, HK$147.1 million of the proceeds have been utilised to repay CEC Outfitters Limited, the immediate holding company and one of the controlling shareholders of our Company, as indicated in the Prospectus. The remaining balance of the proceeds, deposited in licensed banks in Hong Kong and mainland China, is intended to be utilised in accordance with the proposed applications set out in the section headed "Future plans and use of proceeds" in the Prospectus.

Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. LO Peter（路嘉星先生）, aged 56, is the Chairman and an executive director of our Company. 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 an executive director of Bio-Dynamic Group Limited, a company listed on the Main Board of the Stock Exchange. Mr. Lo is also a director of China Enterprise Capital Limited, 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 was the independent non-executive director of Lonking Holdings Limited from February 2005 to May 2008. He 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 52, is the Chief Executive Officer and an executive director of our Company. 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. Mr. Zhang 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 46, is an executive director of our Company. He joined our Group in 2006 and 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 executive director of Bio-Dynamic Group Limited, a company listed on the Main Board of the Stock Exchange, since May 2005. 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 40, is an executive director of our Company. 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.

NON-EXECUTIVE DIRECTOR

Mr. LI Guoqiang（李國强先生）, aged 42, 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 Guangdong Rieys until 2006 and 2009, respectively. Mr. Li was appointed as our non-executive director on 8 June 2011."

* The English name is translation from its Chinese name. If there is any inconsistency between the English name and the Chinese name, the Chinese name shall prevail.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. KWONG Wilson Wai Sun（鄺偉信先生）, aged 46, is an independent non-executive director of our Company. He is the President of Gushan Environmental Energy Limited, one of China's leading biodiesel producers which is listed on the New York Stock Exchange. He is also the independent non-executive director of Hongguo 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 57, 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 51, 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 Accounts. 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.

SENIOR MANAGEMENT

Mr. MAK Yue Ping（麥裕平先生）, aged 33, is the Chief Financial Officer and Company Secretary of our Company. He is a fellow member of The Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. He has over 10 years of experience in auditing and accounting experience. Prior to joining our Group, he was the internal audit manager of Bio-Dynamic Group Limited, a company listed on the Main Board of the Stock Exchange, from June 2006. Before working in Bio-Dynamic Group Limited, he had worked in Arrow Asia Pac Ltd, a subsidiary of Arrow Electronics in the U.S., which is one of the leading electronics distributors in the world and listed on the New York Stock Exchange, responsible for the products and cost accounting function and the Sarbanes-Oxley compliance for Asia Pacific. Between 2000 and 2004, he worked in the assurance and advisory services department and business risk services department of Ernst & Young after receiving a Bachelor of Business Administration degree in Accountancy from the City University of Hong Kong in 2000. He is responsible for the overall financial strategic planning and financial reporting of our Group and ensuring our Group's compliance with statutory and regulatory requirements.

Mr. WANG Hai（王海先生）, aged 46, 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 39, 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 33, is the Chief Human Resource Officer and Regional Sales Controller of our Company. He joined our Group in 2000. Previously, he was 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 42, 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 37, 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 43, 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 47, 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.

COMPANY SECRETARY

MAK Yue Ping, aged 33, is the company secretary of our Company. His biographical details are set out above under the paragraph headed "Senior Management".

Corporate Governance Report

The board of directors (the "Board") of the Company is pleased to present this Corporate Governance Report for the period from 9 December 2011 (the "Listing Date") to 31 December 2011 (the "CG Period") in the Group's Annual Report for the year ended 31 December 2011.

CORPORATE GOVERNANCE PRACTICES

The Group is committed to achieving high standards of corporate governance to safeguard the interests of shareholders and to enhance corporate value and accountability.

The Company recognises the importance of good corporate governance to its healthy growth and has devoted considerable efforts to identifying and formulating corporate governance practices appropriate to its needs.

The Company has applied the principles as set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since the Listing Date.

In the opinion of the Board, the Company has complied with all the code provisions as set out in the CG Code throughout the CG Period.

The Company reviews its corporate governance practices regularly to ensure compliance with the CG Code.

THE BOARD

Responsibilities

The Board is responsible for leadership and control of the Company and oversees the Group's businesses, strategic decisions and performance. The Board has delegated to the senior management the authority and responsibility for the day-to-day management and operation of the Group. In addition, the Board has established Board committees and has delegated to these Board committees various responsibilities as set out in their respective terms of reference.

All directors shall ensure that they carry out duties in good faith, in compliance with applicable laws and regulations, and in the interests of the Company and its shareholders at all times.

Board Composition

The Board currently comprises eight members, consisting of four executive directors, one non-executive director and three independent non-executive directors.

The list of all directors is set out under "Corporate Information" on page 2. The independent non-executive directors are expressly identified in all corporate communications pursuant to the Listing Rules.

The list of directors (by category) is also disclosed in all corporate communications issued by the Company pursuant to the Listing Rules from time to time.

Save as the relationships between members of the Board set out in "Directors and Senior Management" in this annual report, there are no relationships between the members of the Board.

During the year ended 31 December 2011, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has received written annual confirmation from each independent non-executive director of his independence pursuant to the requirements of the Listing Rules. The Company considers all independent non-executive directors to be independent in accordance with the independence guidelines as set out in the Listing Rules.

The non-executive directors bring a wide range of business and financial expertise, experience and independent judgement to the Board. Through active participation at Board meetings, taking the lead in managing issues involving potential conflict of interests, serving on Board committees and scrutinising the Company's performance in achieving agreed corporate goals and objectives, and monitoring the reporting of performance, all non-executive directors make various contributions to the effective direction of the Company.

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.

Appointment and Re-Election of Directors

Each of the directors (including executive and non-executive directors) of the Company is engaged on a service contract for a term of three years. The appointment may be terminated by not less than three months' written notice.

In accordance with the Company's Articles of Association, all directors of the Company are subject to retirement by rotation at least once every three years and any new director appointed to fill a causal vacancy or as an addition to the Board shall submit himself/herself for re-election by shareholders at the first general meeting after appointment.

The procedures and process of appointment, re-election and removal of directors are laid down in the Company's Articles of Association. The Nomination Committee is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of directors, monitoring the appointment and succession planning of directors and assessing the independence of independent non-executive directors.

Nomination Committee

The Nomination Committee comprises three members, namely Mr. LO Peter, Mr. KWONG Wilson Wai Sun and Mr. YEUNG Chi Wai, the majority of them are independent non-executive directors. Mr. LO Peter is the chairman of the Nomination Committee.

The principal duties of the Nomination Committee include reviewing the Board composition, developing and formulating relevant procedures for 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 the independent non-executive directors.

The Nomination Committee had not held any meeting during the year ended 31 December 2011.

Training Induction and Continuing Development of Directors

Each newly appointed director receives a 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 are continually updated on the statutory and regulatory regime and the business environment to facilitate the discharge of their responsibilities. Continuing briefing and professional development for directors will be arranged where necessary.

Board Meetings

Board Practices and Conduct of Meetings

Annual meeting schedules and draft agenda of each meeting are normally made available to directors in advance.

Notice of regular Board meetings is served to all directors at least 14 days before the meeting. For other Board and committee meetings, reasonable notice is generally given.

Board papers together with all appropriate, complete and reliable information are sent to all directors at least 3 days before each Board meeting or committee meeting to keep directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each director also have separate and independent access to the senior management where necessary.

The senior management normally attend all regular Board meetings and where necessary, other Board and committee meetings, to advise on business developments, financial and accounting matters, statutory and regulatory compliance, corporate governance and other major aspects of the Company.

The Company Secretary is responsible for taking and keeping minutes of all Board meetings and committee meetings. Draft minutes are normally circulated to directors for comment within a reasonable time after each meeting and final versions are open for directors' inspection.

The Company's Articles of Association contain provisions requiring directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such directors or any of their associates have a material interest. According to current Board practice, any material transaction, which involves a conflict of interests for a substantial shareholder or a director, will be considered and dealt with by the Board at a duly convened Board meeting with the presence of disinterested independent non-executive directors.

Directors' Attendance Records

During the year ended 31 December 2011, one Board meeting was held to consider, finalize and approve the arrangements, agreements and ancillary matters in connection with the proposed listing of the Company's shares on the Stock Exchange and the related global offering.

The attendance records of each director at the Board meetings during the year ended 31 December 2011 are set out below:

Name of Director	**Attendance/Number of Meetings**
Executive Directors	
Mr. LO Peter	1/1
Mr. ZHANG Yongli	1/1
Mr. SUN David Lee	1/1
Ms. HUANG Xiaoyun	1/1
Non-executive Director	
Mr. LI Guoqiang	1/1
Independent Non-executive Directors	
Mr. KWONG Wilson Wai Sun	1/1
Mr. CUI Yi	1/1
Mr. YEUNG Chi Wai	1/1

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 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 2011.

The Company has also established written guidelines on no less exacting terms than the Model Code (the "Code for Securities Transactions by Officers") 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 Code for Securities Transactions by Officers by the employees was noted by the Company.

DELEGATION BY THE BOARD

The Board reserves for its decision all major matters of the Company, including: approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of directors and other significant financial and operational matters.

All directors have full and timely access to all relevant information as well as the advice and services of the Company Secretary, with a view to ensuring that Board procedures and all applicable laws and regulations are followed. Each director is normally able to seek independent professional advice in appropriate circumstances at the Company's expense, upon making request to the Board.

The day-to-day management, administration and operation of the Company are delegated to the Chief Executive Officer and the senior management. The delegated functions and responsibilities are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the aforesaid officers.

The Board has established three committees, namely, the Nomination Committee, Remuneration Committee and Audit Committee as at 31 December 2011, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference which are posted on the Company's website and are available to shareholders upon request.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

Remuneration Committee

The Remuneration Committee comprises three members, namely, Mr. CUI Yi, Mr. KWONG Wilson Wai Sun and Mr. ZHANG Yongli, the majority of which are independent non-executive directors. Mr. CUI Yi has been appointed as the chairman of the Remuneration Committee effective from 20 March 2012, in place of Mr. ZHANG Yongli to comply with the amendments to the Rules Governing the Listing of Securities on the Stock Exchange which will become effective on 1 April 2012.

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 make recommendations on the remuneration packages of the executive directors and the senior management;
- 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; and
- To review and approve the compensation arrangements for the executive directors and the senior management.

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's principal duties include reviewing the remuneration policy and structure of the Company, and the remuneration packages of the executive directors and the senior management for the year under review.

The Remuneration Committee had not held any meeting during the year ended 31 December 2011.

ACCOUNTABILITY AND AUDIT

Directors' Responsibilities for Financial Reporting in Respect of Financial Statements

The directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2011.

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.

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, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget.

The Board is responsible for maintaining an adequate internal control system to safeguard shareholder investments and Company assets and reviewing the effectiveness of such system on an annual basis.

The internal control system of the Group is designed to facilitate effective and efficient operations, to ensure reliability of financial reporting and compliance with applicable laws and regulations, to identify and manage potential risks and to safeguard assets of the Group. The internal auditor reviews and evaluates the control process, monitors any risk factors on a regular basis, and reports to the Audit Committee on any findings and measures to address the variances and identified risks.

Audit Committee

The Audit Committee comprises three independent non-executive directors, namely, Mr. KWONG Wilson Wai Sun, Mr. CUI Yi and Mr. YEUNG Chi Wai (including two independent non-executive directors who possess the appropriate professional qualifications or accounting or related financial management expertise). Mr. KWONG Wilson Wai Sun is the chairman of the Audit Committee. None of the members of the Audit Committee is a former partner of the Company's existing external auditors.

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 action.

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 reviewed the Group's annual results and annual report for the year ended 31 December 2011, the financial reporting and compliance procedures, the report of the internal auditor on the Company's internal control and risk management systems and processes, and the re-appointment of the external auditors.

The Audit Committee held one meeting during the year ended 31 December 2011 and the attendance records are set out below:

Name of Director	Attendance/Number of Meetings
Mr. KWONG Wilson Wai Sun	1/1
Mr. CUI Yi	1/1
Mr. YEUNG Chi Wai	1/1

External Auditors and 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 page 35.

The remuneration paid to the external auditors of the Company in respect of audit services and non-audit services for the year ended 31 December 2011 amounted to HK$2,864,000 and HK$5,050,000.00 respectively.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

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 also recognises the importance of transparency and timely disclosure of corporate information, which will enable shareholders and investors to make the best investment decisions.

The general meetings of the Company provide a forum for communication between the Board and the shareholders. The Chairman of the Board as well as chairmen of the Nomination Committee, Remuneration Committee and Audit Committee or, in their absence, other members of the respective committees and, where applicable, the chairman of the independent Board committee, are available to answer questions at shareholder meetings.

To promote effective communication, the Company maintains a website at www.cohl.hk, where up-to-date information and updates on the Company's business operations and developments, financial information, corporate governance practices and other information are available for public access.

SHAREHOLDERS' RIGHTS

To safeguard shareholder interests and rights, a separate resolution is proposed for each substantially separate issue at general meetings, including the election of individual directors.

All resolutions put forward at general 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.

Report of the Directors

The board of directors of the Company (the "Board") has pleasure in presenting their first annual report together with the audited consolidated financial statements of the Company and its subsidiaries (together, the "Group") for the year ended 31 December 2011 (the "Reporting Year").

CORPORATE REORGANISATION AND INITIAL PUBLIC OFFERING

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. Pursuant to a reorganisation of the Group in preparation for the listing of the Company's shares on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the companies now comprising the Group. Details of the reorganisation are set out in the prospectus of the Company dated 29 November 2011 (the "Prospectus").

The Company's shares have been listed on the Stock Exchange since 9 December 2011 (the "Listing Date").

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 19 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the Reporting Year.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2011 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 37 to 99.

The Board recommends the payment of a final dividend of HK7.3 cents per ordinary share in respect of the Reporting Year to shareholders on the register of members on 18 May 2012. This recommendation has been incorporated in the financial statements as an allocation of share premium 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 DATE

The proposed final dividend is subject to approval by the shareholders at the forthcoming annual general meeting ("AGM") to be held on Monday, 14 May 2012. The record date for the entitlement to attend and vote at the AGM is 11 May 2012. 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 not later than 4:30 p.m. on Friday, 11 May 2012.

The record date for the entitlement to the proposed final dividend is at 4:30 p.m. on Friday, 18 May 2012. In order to qualify for the final dividend, 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, 18 May 2012.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last four financial years, as extracted from the published audited financial statements, is set out on page 100. 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, and investment properties of the Group during the Reporting Year are set out in notes 16 and 18 to the financial statements, respectively. The valuation of the Group's buildings as disclosed in the Prospectus were RMB129.4 million as at 31 October 2011. Had the Group's buildings been included in these financial statements at such valuation amount throughout the Reporting Year, an additional depreciation charge of RMB0.8 million would have been recognised to the consolidated statement of comprehensive income for the Reporting Year.

SHARE CAPITAL

Details of movements in the Company's share capital during the Reporting Year are set out in notes 31 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.

PURCHASE, REDEMPTION OR SALE OF SHARES OF THE COMPANY

Except for the IPO, since the Listing Date and up to the date of this report, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's shares.

RESERVES

Details of movements in the reserves of the Company and the Group during the Reporting Year are set out in note 33 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2011, 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 RMB4,157.1 million, of which RMB204.1 million has been proposed as final dividend for the year. Under the Companies Law, a company may make distribution to its shareholders out of the share premium account and contributed surplus under certain circumstances.

MAJOR CUSTOMERS AND SUPPLIERS

During the Reporting Year, the aggregate sales attributable to the Group's five largest customers and the sales attributable to the Group's largest customer were approximately 6.2% and 1.5%, 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 20.3% and 5.9%, respectively, of the Group's total purchases during the Reporting Year.

None of the directors of the Company 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 Reporting Year and up to the date of this report, the directors were:

Executive directors:	
Mr. LO Peter	(Chairman) (appointed on 10 March 2011)
Mr. ZHANG Yongli	(appointed on 8 June 2011)
Mr. SUN David Lee	(appointed on 8 June 2011)
Ms. HUANG Xiaoyun	(appointed on 8 June 2011)
Non-executive directors:	
Mr. LI Guoqiang	(appointed on 8 June 2011)
Mr. KWONG Wilson Wai Sun*	(appointed on 8 June 2011)
Mr. CUI Yi*	(appointed on 8 June 2011)
Mr. YEUNG Chi Wai *	(appointed on 8 June 2011)

* Independent non-executive directors

In accordance with the Company's articles of association, Mr. LO Peter, Mr. ZHANG Yongli and Mr. SUN David Lee will retire from the Board by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

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 of the Company and the senior management of the Group are set out on pages 12 to 15 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.

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 service contracts.

Apart from the foregoing, no director proposed for re-election at the forthcoming annual general meeting 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 10 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 Reporting Year.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the Reporting Year was the Company or any of its subsidiaries a party to any arrangement that would enable the directors to acquire benefits by means of acquisition of shares in or debentures of any other body corporate, and none of the directors or any of their spouse or children under the age of 18 were granted any right to subscribe for the equity or debt securities of the Company.

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

At 31 December 2011, 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	—	20,328,000	20,328,000	0.59
Mr. ZHANG Yongli	Beneficial owner	—	20,328,000	20,328,000	0.59
Mr. SUN David Lee	Beneficial owner	—	8,328,000	8,328,000	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. 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 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 2011, 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:

(1) 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 options were granted, exercised or cancelled by the Company under the Share Option Scheme during the Reporting Year.

(2) 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-fourths (1/4) of the share options shall become vested and exercisable on 9 December 2012, 2013, 2014 and 2015, respectively.

2. Outstanding Options Granted

A total of 205,552,000 shares were granted to 20 participants by the Company on 9 December 2011 under the Pre-IPO Share Option Scheme, including 8 directors.

The details of valid grantees and share options under the Pre-IPO Share Option Scheme during the Reporting Year by category of grantees is set out below:

	Number of grantees	
Category of grantees	Granted as at 9 December 2011	**Valid as at 31 December 2011**
Executive directors	4	**4**
Non-executive director	1	**1**
Independent non-executive directors	3	**3**
	8	**8**

	Number of shares to be issued upon fully exercise of all options granted under the Pre-IPO Share Option Scheme	
Category of grantees	Granted as at 9 December 2011	**Outstanding as at 31 December 2011**
Executive directors	63,384,000	**63,384,000**
Non-executive director	4,328,000	**4,328,000**
Independent non-executive directors	3,000,000	**3,000,000**
	70,712,000	**70,712,000**

Details of the share options granted to the 8 directors by the Company under the Pre-IPO Share Option Scheme are set out on page 87 of the annual report.

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 Reporting Year.

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 Reporting Year.

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

At 31 December 2011, 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
China Enterprise Capital Limited	(1)	Corporate interest	1,868,100,000(L)	54.52(L)
CEC Menswear Limited	(1)	Corporate interest	1,868,100,000(L)	54.52(L)
Mr. ZHANG Bruce Yongfu	(1)	Corporate interest	1,868,100,000(L)	54.52(L)
Vinglory Holdings Limited	(1)	Corporate interest	1,868,100,000(L)	54.52(L)
CEC Outfitters Limited	(1)	Beneficial owner	1,868,100,000(L)	54.52(L)
Managecorp Limited	(2)	Trustee	506,100,000(L)	14.77(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)
YM Investment Limited	(3)	Corporate interest	506,100,000(L)	14.77(L)
Orchid Asia IV Investment, 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 Group Management, Limited	(3)	Corporate interest	495,990,000(L)	14.48(L)
OAIV Holdings, L.P.	(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)
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)
KKR Management LLC	(4)	Corporate interest	285,366,000(L)	8.33(L)
KKR & Co. 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)
KKR Fund Holdings GP Limited	(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 Fund Holdings 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 SP Limited	(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 Growth Fund 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)
UBS AG	—	Beneficial owner	152,918,000(L)	4.46(L)
		Beneficial owner	103,734,000(S)	3.03(S)
		Security interest in shares	19,840,000(L)	0.58(L)

(L) Long position.

(S) Short position.

Notes:

(1) CEC Outfitters Limited, holding 1,868,100,000 shares (long position) of the Company, was owned as to 57.58% and 42.42% 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 Fund Holdings L.P. was owned as to 31% and 2% by KKR Group Holdings L.P. and KKR Subsidiary Partnership L.P. respectively. Besides, KKR Subsidiary Partnership L.P. was owned as to 99% by KKR Group Holdings L.P. 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 2011, 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.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

During the Reporting Year, 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 Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

DISCLOSURES PURSUANT TO RULES 13.21 AND 13.22 OF THE LISTING RULES

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

SUFFICIENCY OF PUBLIC FLOAT

Based on 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 Reporting Year 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.

USE OF NET PROCEEDS FROM THE COMPANY'S 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 (as described in the announcement of our Company dated 4 January 2012). Since the Listing Date and up to 31 December 2011, HK$147.1 million of the proceeds have been utilised to repay CEC Outfitters Limited, the immediate holding company and one of the controlling shareholders of our Company, as indicated in the Prospectus. The remaining balance of the proceeds, deposited in licensed banks in Hong Kong and mainland China, is intended to be utilised in accordance with the proposed applications set out in the section headed "Future plans and use of proceeds" in the Prospectus.

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 4 under the heading "Employee benefits" to the financial statements.

EVENT AFTER THE REPORTING PERIOD

Details of the significant event after the reporting period 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 16 to 23 of the annual report.

AUDIT COMMITTEE

The Company established an 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 Reporting Year have been reviewed by our audit committee.

AUDITORS

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

ON BEHALF OF THE BOARD

LO Peter
Chairman
Hong Kong
19 March 2012

Independent Auditors' Report

ERNST & YOUNG
安 永

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 37 to 99, which comprise the consolidated and company statements of financial position as at 31 December 2011, 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 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 2011 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
19 March 2012

Consolidated Statement of Comprehensive Income

Year ended 31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
REVENUE	7	**1,248,026**	909,991
Cost of sales		**(298,124)**	(215,735)
Gross profit		**949,902**	694,256
Other income and gains, net	7	**26,122**	15,178
Selling and distribution costs		**(385,087)**	(284,771)
Administrative expenses		**(33,581)**	(43,368)
Other expenses		**(17,802)**	(11,838)
Operating profit		**539,554**	369,457
Finance income	8	**16,262**	5,843
PROFIT BEFORE TAX	9	**555,816**	375,300
Income tax expense	12	**(144,590)**	(111,393)
PROFIT FOR THE YEAR		**411,226**	263,907
OTHER COMPREHENSIVE INCOME			
Exchange differences on translation of foreign operations		**660**	1,173
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**411,886**	265,080
Profit attributable to:			
Owners of the parent	13	**408,226**	262,573
Non-controlling interests		**3,000**	1,334
		411,226	263,907
Total comprehensive income attributable to:			
Owners of the parent		**408,886**	263,746
Non-controlling interests		**3,000**	1,334
		411,886	265,080
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	15		
Basic and diluted		**RMB14 cents**	RMB9 cents

Details of the dividend paid and proposed for the year are disclosed in note 14 to the financial statements.

Consolidated Statement of Financial Position

31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	16	**81,762**	82,358
Prepaid land lease payments	17	**42,913**	29,548
Investment properties	18	**5,538**	5,712
Goodwill	20	**70,697**	70,697
Other intangible assets	21	**67,729**	71,102
Deferred tax assets	23	**31,244**	23,343
Total non-current assets		**299,883**	282,760
CURRENT ASSETS			
Inventories	24	**336,454**	212,862
Trade receivables	25	**105,095**	90,505
Prepayments, deposits and other receivables	26	**48,859**	46,454
Investment deposits	27	**245,000**	—
Pledged bank deposits	28	**3,952**	14,812
Cash and cash equivalents	28	**1,035,079**	607,090
Total current assets		**1,774,439**	971,723
CURRENT LIABILITIES			
Trade and bills payables	29	**26,426**	49,486
Deposits received, other payables and accruals	30	**197,216**	150,251
Amount due to a related party	37	**—**	146,267
Tax payable		**175,861**	164,689
Total current liabilities		**399,503**	510,693
NET CURRENT ASSETS		**1,374,936**	461,030
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,674,819**	743,790
NON-CURRENT LIABILITIES			
Deferred tax liabilities	23	**14,209**	18,394
Net assets		**1,660,610**	725,396

	Notes	**2011 RMB'000**	2010 RMB'000
EQUITY			
Equity attributable to owners of the parent			
Issued capital	31	**279,120**	—
Reserves	33	**1,172,825**	696,259
Proposed final dividend	14	**204,113**	—
		1,656,058	696,259
Non-controlling interests		**4,552**	29,137
Total equity		**1,660,610**	725,396

LO Peter
Director

SUN David Lee
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2011

	Attributable to owners of the parent											
	Issued capital	**Share premium**	**Merger reserve**	**Acquisition reserve**	**Share option reserve**	**Statutory surplus reserve**	**Exchange fluctuation reserve**	**Retained profits**	**Proposed final dividend**	**Total**	**Non-controlling interests**	**Total equity**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(note 31)		(note 33 (a))	(note 33 (b))	(note 32)	(note 33 (c))			(note 14)			
At 1 January 2010	–	–	302,099	(125,864)	–	1,329	3,504	251,445	–	432,513	27,803	460,316
Total comprehensive income for the year	–	–	–	–	–	–	1,173	262,573	–	263,746	1,334	265,080
Appropriations to statutory surplus reserve	–	–	–	–	–	10,642	–	(10,642)	–	–	–	–
At 31 December 2010 and 1 January 2011	–	–	302,099*	(125,864)*	–	11,971*	4,677*	503,376*	–	696,259	29,137	725,396
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 (note 14)	–	–	–	–	–	–	–	(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 RMB1,172,825,000 (2010: RMB696,259,000) in the consolidated statement of financial position as at 31 December 2011.

Consolidated Statement of Cash Flows

Year ended 31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		555,816	375,300
Adjustments for:			
Finance income	8	(16,262)	(5,843)
Equity-settled share option expenses	9	1,529	—
Depreciation of items of property, plant and equipment	9	6,753	6,096
Depreciation of investment properties	9	158	152
Amortisation of prepaid land lease payments	9	738	658
Amortisation of intangible assets	9	249	4,713
Impairment of intangible assets	9	—	4,357
Write-down of inventories to net realisable value	9	46,674	37,236
Impairment of trade receivables	9	29	185
		595,684	422,854
Increase in inventories		(170,266)	(103,078)
Increase in trade and bills receivables		(14,618)	(23,978)
Increase in prepayments, deposits and other receivables		(8,886)	(14,295)
Increase/(decrease) in trade and bills payables		(23,060)	21,273
Increase in deposits received, other payables and accruals		46,965	77,006
Cash received from operations		425,819	379,782
Withholding tax paid		(4,000)	(4,789)
PRC corporate income tax paid		(141,503)	(64,165)
Net cash flows from operating activities		280,316	310,828
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(6,490)	(11,134)
Proceeds from disposal of items of property, plant and equipment		333	32
Additions to prepaid land lease payments		(9,378)	—
Additions to investment properties	18	—	(545)
Proceeds from disposal of items of investment properties	18	16	—
Decrease in short term deposits with original maturity of over three months		10,180	14,820
Interest received from time deposits		12,382	4,911
Interest received from investment deposits		2,042	—
Increase in investment deposits		(245,000)	—
Net cash flows from/(used in) investing activities		(235,915)	8,084

	Notes	2011 RMB'000	2010 RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Decrease in amounts due to related parties		(146,267)	(31,413)
Proceeds from issue of shares		640,926	—
Share issue expenses		(40,477)	—
Dividend declared and paid by a subsidiary to its then existing shareholder	14	(75,056)	—
Net cash flows from/(used in) financing activities		379,126	(31,413)
NET INCREASE IN CASH AND CASH EQUIVALENTS		423,527	287,499
Effect of foreign exchange rate changes, net		3,782	3,637
Cash and cash equivalents at beginning of year		608,722	317,586
CASH AND CASH EQUIVALENTS AT END OF YEAR		1,036,031	608,722
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		769,079	173,910
Time deposits		266,000	433,180
Cash and cash equivalents as stated in the consolidated statement of financial position	28	1,035,079	607,090
Time deposits with original maturity of less than three months when acquired, pledged as security for bank acceptance notes	28	3,952	14,812
Less: Time deposits with original maturity of over three months		(3,000)	(13,180)
Cash and cash equivalents as stated in the consolidated statement of cash flows		1,036,031	608,722

Statement of Financial Position

31 December 2011

	Notes	2011 RMB'000
NON-CURRENT ASSETS		
Investments in subsidiaries	19	**3,778,531**
CURRENT ASSETS		
Prepayments	26	**29**
Amounts due from subsidiaries	19	**91,259**
Cash and cash equivalents	28	**486,109**
Total current assets		**577,397**
CURRENT LIABILITIES		
Accruals	30	**16,092**
NET CURRENT ASSETS		**561,305**
Net assets		**4,339,836**
EQUITY		
Issued capital	31	**279,120**
Reserves	33	**3,856,603**
Proposed final dividend	14	**204,113**
Total equity		**4,339,836**

LO Peter
Director

SUN David Lee
Director

1. CORPORATE INFORMATION AND THE REORGANISATION

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 Walker House, 87 Mary Street, George Town, Grand Cayman KY1-9005, Cayman Islands. The address of its principal place of business is Room 610, 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 design, manufacturing, 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 holding company of the Company is CEC Outfitters Limited ("CEC Outfitters"), a company incorporated in the British Virgin Islands ("BVI").

In preparation for the listing of the shares of the Company on the Stock Exchange, the Group underwent a corporate reorganisation (the "Reorganisation"), pursuant to which the Company became the holding company of the subsidiaries now comprising the Group. Details of the Reorganisation are set out in the prospectus of the Company dated 29 November 2011 (the "Prospectus").

2. BASIS OF PREPARATION

Pursuant to the Reorganisation, the subsidiaries now comprising the Group were under the common control of the controlling shareholders before and after the Reorganisation. Accordingly, these financial statements have been prepared by applying the principles of pooling-of-interests as if the Reorganisation had been completed at the beginning of the financial periods presented.

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. All IFRSs effective for the accounting period commencing from 1 January 2011, together with the relevant transitional provisions, have been early adopted by the Group throughout the periods presented in these financial statements.

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.

2. BASIS OF PREPARATION *(continued)*

Basis of consolidation

As aforementioned, these financial statements have been prepared using the pooling-of-interests method.

The pooling-of-interests method involves incorporating the financial statement items of the combining entities or businesses which underwent the Reorganisation under common control as if they had been consolidated from the date when the combining entities or businesses first came under the control of the controlling party. The net assets of the combining entities or businesses are consolidated using the existing book values. No amount is recognised in respect of goodwill or excess of the acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost of investment at the time of common control combination, to the extent of the continuation of the controlling party's interest. The consolidated statement of comprehensive income included the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under common control, where this is a shorter period, regardless of the date of the Reorganisation under common control.

The consolidated statements of comprehensive income, cash flows and changes in equity for the financial periods presented include the results and cash flows and changes in equity of the Company and its subsidiaries as if the current structure had been in existence throughout the financial periods presented or since their respective dates of incorporation or establishment, where this is a shorter period. The consolidated statements of financial position as at 31 December 2011 and 2010 have been prepared to present the state of affairs of the Group as if the current structure of the Group had been in existence and in accordance with the respective equity interests in the individual companies attributable to the Company as at the respective dates.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

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

3. 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	Amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards — Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters*[1]
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures — Transfers of Financial Assets*[1]
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures — Offsetting Financial Assets and Financial Liabilities*[4]
IFRS 9	*Financial Instruments*[6]
IFRS 10	*Consolidated Financial Statements*[4]
IFRS 11	*Joint Arrangements*[4]
IFRS 12	*Disclosure of Interests in Other Entities*[4]
IFRS 13	*Fair Value Measurement*[4]
IAS 1 Amendments	Amendments to IAS 1 *Presentation of Financial Statements — Presentation of Items of Other Comprehensive Income*[3]
IAS 12 Amendments	Amendments to IAS 12 *Income Taxes — Deferred Tax: Recovery of Underlying Assets*[2]
IAS 32 Amendments	Amendments to IAS 32 *Financial Instruments: Presentation — Offsetting Financial Assets And Financial Liabilities*[5]
IAS 19 Amendments	*Employee Benefits*[4]
IAS 27 (Revised)	*Separate Financial Statements*[4]
IAS 28 (Revised)	*Investments in Associates and Joint Ventures*[4]
IFRIC 20	*Stripping Costs in the Production Phase of a Surface Mine*[4]

1 Effective for annual periods beginning on or after 1 July 2011
2 Effective for annual periods beginning on or after 1 January 2012
3 Effective for annual periods beginning on or after 1 July 2012
4 Effective for annual periods beginning on or after 1 January 2013
5 Effective for annual periods beginning on or after 1 January 2014
6 Effective for annual periods beginning on or after 1 January 2015

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

Further information about those changes that are expected to significantly affect the Group is as follows:

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.

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 includes the issues raised in SIC 12.

IFRS 12 includes the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities that are 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.

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 and the consequential amendments to IAS 27 and IAS 28 from 1 January 2013.

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

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.

Amendments to IAS 1 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, upon derecognition or settlement) would be presented separately from items which will never be reclassified. The Group expects to adopt the amendments from 1 January 2013.

IAS 19 Amendments include a number of amendments that range from fundamental changes to simple clarifications and re-wording. The revised standard introduces 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.

4. 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 of the subsidiary 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 forms part of a CGU (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 disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the CGU retained.

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

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.

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 any 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

4. 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 (or the entity is the sponsoring employers if the Group is itself such a plan);

(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%

4. 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 the end of each reporting period.

An item of property, plant and equipment and 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 include both completed investment properties and investment properties under construction. Completed 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. Investment properties under construction or development for future use as investment properties are classified as investment properties under construction. Investment 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.

4. 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 life 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.

4. 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.

The Group's financial assets include cash and cash equivalents, pledged bank deposits, trade receivables, deposits and other receivables and investment deposits.

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 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.

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.

4. 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 any 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.

4. 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 amount of 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 future 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 plus, in the case of loans and borrowings, 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.

4. 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, and only 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.

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.

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.

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

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, associates and joint ventures, 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.

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

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

Income tax *(continued)*

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, 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 over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

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;

(d) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts through 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.

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

Share-based payment transactions

The Company operates a share option scheme 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 payment transactions, 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 32 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 payment transaction, 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.

Dividends

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 theses dividends have been approved by the shareholders and declared, they are recognised as a liability.

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

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 its 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 ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences arising on settlement or translation of monetary items are taken to 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 as 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 ruling 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.

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.

5. 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 the disclosure of contingent liabilities, at the end of the reporting period. However, 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.

Deferred tax assets

Deferred tax assets are recognised for all deductible temporary difference and all 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 23 below.

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

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.

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 the end of the reporting period.

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 2011 was RMB70,697,000 (2010: RMB70,697,000). More details are given in note 22 below.

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

Estimation uncertainty *(continued)*

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 22 below.

6. OPERATING SEGMENT INFORMATION

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

IFRS 8 *Operating Segment* 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 revenues from a single external customer amounted to 10% or more of the Group's revenue during the financial periods presented.

7. 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	
	2011	2010
	RMB'000	RMB'000
Revenue		
Sale of goods	**1,248,026**	909,991
Other income and gains, net		
Government subsidies*	**21,473**	10,103
Arrangement fees#	**2,640**	3,359
Rental income, net	**130**	222
Sale of consumables, net	**1,818**	1,419
Others	**61**	75
	26,122	15,178

* These represent incentive subsidies provided by local governments as a measure to attract investment in these localities. The amounts of these subsidies are generally determined by reference to the 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.

8. FINANCE INCOME

	Group	
	2011	2010
	RMB'000	RMB'000
Interest income on bank deposits	**12,836**	5,843
Interest income from investment deposits	**3,426**	—
	16,262	5,843

9. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

	Notes	Group 2011 RMB'000	Group 2010 RMB'000
Cost of inventories sold		**251,450**	178,499
Depreciation			
Property, plant and equipment	16	**6,753**	6,096
Investment properties	18	**158**	152
		6,911	6,248
Amortisation of prepaid land lease payments*	17	**738**	658
Amortisation of intangible assets*	21	**249**	4,713
Minimum lease payments under operating leases in respect of buildings		**6,602**	6,858
Auditors' remuneration		**2,378**	1,775
Employee benefit expenses (including directors' remuneration (note 10)):			
Wages and salaries		**42,717**	49,611
Equity-settled share option expenses		**1,529**	—
Pension scheme contributions		**6,542**	4,508
		50,788	54,119
Impairment of intangible assets	21	**—**	4,357
Impairment of trade receivables	25	**29**	185
Write-down of inventories to net realisable value#		**46,674**	37,236

* 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.

10. DIRECTORS' REMUNERATION

Details of directors' remuneration for the year are as follows:

	Group	
	2011	2010
	RMB'000	RMB'000
Fees	**1,316**	—
Other emoluments:		
Salaries, allowances and benefits in kind	**1,896**	5,376
Equity-settled share option expenses	**526**	—
Pension scheme contributions	**13**	10
	2,435	5,386
	3,751	5,386

During the 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 32 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
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 and no fees and emoluments payable for the year ended 31 December 2010.

10. DIRECTORS' REMUNERATION *(continued)*

(b) Executive directors and a non-executive director

	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
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**
2010					
Executive directors:					
LO Peter (路嘉星)	—	1,000	—	—	1,000
ZHANG Yongli (張永力)	—	2,212	—	6	2,218
SUN David Lee (孫如暐)	—	800	—	—	800
HUANG Xiaoyun (黃曉雲)	—	1,364	—	4	1,368
	—	5,376	—	10	5,386

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

11. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three director (2010: one), details of whose remuneration are detailed in note 10 above. Details of the remuneration of the remaining two (2010: four) non-director, highest paid employees for the year are as follows:

	Group	
	2011	2010
	RMB'000	RMB'000
Salaries, allowances and benefits in kind	**765**	5,636
Equity-settled share option expenses	**154**	—
Pension scheme contributions	**20**	27
	939	5,663

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

	Group	
	2011	2010
Nil to RMB1,000,000	**2**	—
RMB1,000,001 to RMB1,500,000	**—**	3
RMB1,500,001 to RMB2,000,000	**—**	1
	2	4

For the year ended 31 December 2011, share options were granted to two non-director, highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 32 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, highest paid employees' remuneration disclosures.

12. 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.

12. INCOME TAX EXPENSE *(continued)*

In accordance with the relevant PRC income tax rules and regulations, the Group's subsidiaries incorporated/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 2011.

	Group	
	2011	2010
	RMB'000	RMB'000
Current — PRC		
Charge for the year	**152,676**	109,446
Deferred	**(8,086)**	1,947
Total tax charge for the year	**144,590**	111,393

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 subsidiaries are domiciled to the tax expense at the effective tax rate, and a reconciliation of the applicable rates (i.e., statutory tax rates) to the effective tax rate, are as follows:

	Group			
	2011		2010	
	RMB'000	**%**	RMB'000	%
Profit before tax	**555,816**		375,300	
Tax charge at the statutory tax rate	**138,954**	**25**	93,825	25
Entities subject to lower statutory income tax rates	**5,743**	**1**	6,086	2
Effect of withholding tax on undistributed profits of the PRC subsidiaries	**—**	**—**	11,000	3
Expenses not deductible for tax	**120**	**—**	102	—
Tax losses utilised	**—**	**—**	(48)	—
Tax losses not recognised	**656**	**—**	619	—
Others	**(883)**	**—**	(191)	—
Tax charge at the Group's effective tax rate	**144,590**	**26**	111,393	30

13. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the year ended 31 December 2011 includes a loss of RMB33,989,000 (2010: nil) which has been dealt with in the financial statements of the Company (note 33).

14. DIVIDEND

	2011 RMB'000
Proposed final dividend (not recognised as a liability as at 31 December) — HK7.3 cents (2010: nil) per ordinary share	**204,113**

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

No dividend has been declared or paid by the Company since the date of its incorporation. On 2 June 2011, Doright Group Limited declared a dividend of HK$90,000,000 (equivalent to RMB75,056,000), which has been paid during the year, to its then existing shareholder, CEC Outfitters.

15. 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 ended 31 December 2011 attributable to ordinary equity holders of the parent of RMB408,226,000 (2010: RMB262,573,000) and the weighted average number of ordinary shares of 2,975,667,041 (2010: 2,946,750,000) in issue during the year, as if the Reorganisation had been effective since 1 January 2010.

The weighted average number of ordinary shares used to calculate the basic earnings per share for the year ended 31 December 2011 includes the 98,225 ordinary shares in issue, 2,946,651,775 ordinary shares issued pursuant to the capitalisation issue as if the shares had been in issue throughout the year ended 31 December 2011, and 479,760,000 ordinary shares issued on 9 December 2011 in connection with the listing of the Company's ordinary shares on the Stock Exchange.

The number of ordinary shares used to calculate the basic earnings per share for the year ended 31 December 2010 was based on the 2,946,750,000 ordinary shares, representing the number of shares of the Company immediately after the capitalisation issue, as if the shares had been in issue throughout the year ended 31 December 2010.

15. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT *(continued)*

No adjustment has been made to the basic earnings per share amounts presented for the years ended 31 December 2011 and 2010 in respect of a dilution as the impact of the share options under the pre-initial public offering share option scheme and the over-allotment option described in the Prospectus (the "Over-allotment Option") outstanding had an anti-dilutive effect on the basic per share amounts presented.

	2011	2010
	RMB'000	RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**408,226**	262,573

	Number of shares	
	2011	2010
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**2,975,667,041**	2,946,750,000

16. 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 2010, net of accumulated depreciation	57,629	2,684	8,259	6,261	—	74,833
Additions	7,588	2,110	1,711	1,000	1,244	13,653
Disposals	—	—	(17)	(15)	—	(32)
Depreciation provided during the year	(2,393)	(348)	(1,682)	(1,673)	—	(6,096)
At 31 December 2010 and 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	**60,581**	**6,617**	**9,260**	**5,304**	**—**	**81,762**
At 1 January 2010:						
Cost	64,333	3,415	12,475	10,314	—	90,537
Accumulated depreciation	(6,704)	(731)	(4,216)	(4,053)	—	(15,704)
Net carrying amount	57,629	2,684	8,259	6,261	—	74,833
At 31 December 2010:						
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**

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

17. PREPAID LAND LEASE PAYMENTS

	Group	
	2011	2010
	RMB'000	RMB'000
Carrying amount at 1 January	**30,206**	30,864
Additions	**14,375**	—
Amortisation charged during the year	**(738)**	(658)
Carrying amount at 31 December	**43,843**	30,206
Current portion included in prepayments, deposits and other receivables	**(930)**	(658)
Non-current portion	**42,913**	29,548

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

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

18. INVESTMENT PROPERTIES

Group	Completed	Under construction	Total
	RMB'000	RMB'000	RMB'000
At 1 January 2010, net of accumulated depreciation	5,097	222	5,319
Additions	—	545	545
Transfers	767	(767)	—
Depreciation provided during the year	(152)	—	(152)
At 31 December 2010 and 1 January 2011, net of accumulated depreciation	**5,712**	**—**	**5,712**
Disposals	**(16)**	**—**	**(16)**
Depreciation provided during the year	**(158)**	**—**	**(158)**
At 31 December 2011, net of accumulated depreciation	**5,538**	**—**	**5,538**
At 1 January 2010:			
Cost	5,156	222	5,378
Accumulated depreciation	(59)	—	(59)
Net carrying amount	5,097	222	5,319
At 31 December 2010:			
Cost	5,923	—	5,923
Accumulated depreciation	(211)	—	(211)
Net carrying amount	5,712	—	5,712
At 31 December 2011:			
Cost	**5,907**	**—**	**5,907**
Accumulated depreciation	**(369)**	**—**	**(369)**
Net carrying amount	**5,538**	**—**	**5,538**

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 34(a) below.

The Group's investment properties were revalued on 31 October 2011 by Peak Vision Appraisals Limited, independent professionally qualified valuers, at RMB14,000,000 on an open market, existing use basis.

19. INVESTMENTS IN SUBSIDIARIES

	Company	
	2011	2010
	RMB'000	RMB'000
Unlisted, at cost	**3,778,531**	—

The amounts due from subsidiaries included in the Company's current assets of RMB91,259,000 (2010: nil) 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 %	Percentage of equity attributable to the Company Indirect %	Principal activities
Doright Group Limited	BVI 30 October 2009	US$1	100	—	Investment holding
CEC Menswear Limited (3)	Hong Kong 11 July 2006	HK$100	—	100	Investment holding
Faith Enterprise Limited (3)	Hong Kong 5 June 2006	HK$100	—	100	Investment holding
Sky Trend Hong Kong Investment Limited (3)	Hong Kong 24 October 2007	HK$10,000	—	100	Investment holding
Shinemax Corporation Limited ("Shinemax") (3)	Hong Kong 26 October 2006	HK$1	—	100	Corporate office
London Fog (China) Limited ("London Fog (China)") (1)(3)	Hong Kong 26 February 2009	RMB9,000,000	—	100	Holding trademarks and investment holding
Shanghai Doright Fashion Co., Ltd. (上海同瑞服飾有限公司) ("Shanghai Doright")# * (4)	PRC 6 August 2003	US$8,500,000	—	100	Manufacturing and sale of menswear/women swear and accessories
Dezhou Sino-Union Garment Co., Ltd. (德州中合服飾有限公司)# * (4)	PRC 6 January 2005	US$600,000	—	100	Manufacturing and sale of menswear and accessories
Guangdong Leaderway Garment Co., Ltd. (廣東利威製衣有限公司)# * (5)	PRC 25 March 1999	RMB3,000,000	—	100	Manufacturing and sale of menswear and accessories
Shanghai Baowei Fashion Co., Ltd. (上海保威服飾有限公司)# * (5)	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)# * (5)	PRC 28 November 2001	RMB6,000,000	—	100	Sale of menswear/women swear and accessories
Beijing Bolderway Fashion Co., Ltd. (北京保德威服飾有限公司)# * (5)	PRC 28 November 2003	RMB3,000,000	—	100	Sale of menswear/women swear and accessories
Sichuan Bolderway Trading Co., Ltd. (四川保德威商貿有限公司)# * (5)	PRC 19 March 2004	RMB300,000	—	100	Retail trading of menswear and accessories

19. 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)# * (5)	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)# * (5)	PRC 31 May 2004	RMB3,000,000	–	100	Sale of menswear and accessories
Shanghai Xunge Fashion Co., Ltd. (上海勛格服飾有限公司)# (5)	PRC 9 October 2008	RMB10,000,000	–	55	Sale of menswear and accessories
London Fog (Shanghai) Fashion Co., Ltd. (倫頓弗格(上海)服飾有限公司)# (1) (6)	PRC 31 May 2009	RMB10,000,000	–	100	Sale of menswear and accessories
Ruiguo (Suzhou) Fashion Co., Ltd. (瑞國(蘇州)服飾有限公司) ("Ruiguo Suzhou")# (2) (5)	PRC 24 January 2011	RMB100,000,000	–	100	Sale of menswear and accessories
Dezhou Shangyong Zhangui Co., Ltd. (德州中合商用展櫃有限公司)# (5)	PRC 22 March 2011	RMB500,000	–	100	Manufacturing and sale of product showcases and accessories
Shanghai Ruihe Fashion Co., Ltd. (上海瑞合服飾有限公司)# (5)	PRC 5 September 2011	RMB5,000,000	–	100	Sale of menswear 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) Upon completion of the Reorganisation, the Company obtained 100% equity interest of these companies.

(2) Pursuant to the resolution passed on 26 September 2011 by Shanghai Doright, the sole shareholder of Ruiguo Suzhou, Ruiguo Suzhou is in the progress of dissolution, which is expected to be completed in late March 2012.

(3) 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.

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

(5) Limited liability companies under the PRC law.

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

20. GOODWILL

As at 31 December 2011, the carrying value of goodwill was RMB70,697,000 (2010: 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 22 below.

21. OTHER INTANGIBLE ASSETS

Group	Licensing agreements RMB'000	Retail networks RMB'000	Trademarks RMB'000	Total RMB'000
At 1 January 2010, net of accumulated amortisation	8,821	4,213	69,601	82,635
Amortisation charged during the year	(4,464)	(249)	—	(4,713)
Impairment during the year	(4,357)	—	—	(4,357)
Exchange realignment	—	—	(2,463)	(2,463)
At 31 December 2010 and 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, net of accumulated amortisation and impairment	**—**	**3,715**	**64,014**	**67,729**
At 1 January 2010:				
Cost	84,668	4,981	69,601	159,250
Accumulated amortisation	(75,847)	(768)	—	(76,615)
Net carrying amount	8,821	4,213	69,601	82,635
At 31 December 2010:				
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**

21. OTHER INTANGIBLE ASSETS *(continued)*

The Group classified the "London Fog" trademarks as intangible assets with indefinite lives. The registration of certain trademarks in the PRC is still in progress. Acceptance for such application has been obtained from the relevant government authority. The Directors of the Company consider that the approval will be obtained within 12 months after 31 December 2011. The Group has performed an impairment review of the carrying value of trademarks as at 31 December 2011 and 31 December 2010 based on a forecast of operating performance, cash flows and the key assumptions as detailed in note 22 below and has concluded that no impairment is required.

22. 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 three-year period approved by senior management. For the year ended 31 December 2011, the discount rate applied to the cash flow projections is 19.0% (2010: 20.4%) and cash flows beyond the three-year period are extrapolated using a growth rate of 3% (2010: 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 2011, the discount rate applied to the cash flow projections is 20.0% (2010: 25.8%) and cash flows beyond the five-year period are extrapolated using a growth rate of 3% (2010: 3%) which does not exceed the projected long-term average growth rate for relevant industry in the PRC.

Key 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.

23. DEFERRED TAX

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

Group	Impairment of assets	Unrealised profits on inventories	Tax losses available for offsetting against future taxable profits	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2010	15,697	908	75	16,680
Deferred tax credited/(charged) to the consolidated statement of comprehensive income during the year (note 12)	7,181	(443)	(75)	6,663
At 31 December 2010 and 1 January 2011	**22,878**	**465**	**—**	**23,343**
Deferred tax credited to the consolidated statement of comprehensive income during the year (note 12)	**7,612**	**289**	**—**	**7,901**
At 31 December 2011	**30,490**	**754**	**—**	**31,244**

The movements in deferred tax liabilities are as follows:

	Fair value adjustments arising from acquisitions	Withholding tax on distributable profits of the PRC subsidiaries	Total
	RMB'000	RMB'000	RMB'000
At 1 January 2010	8,505	6,068	14,573
Deferred tax transferred out in respect of withholding tax paid by a PRC subsidiary	—	(4,789)	(4,789)
Deferred tax charged/(credited) to the consolidated statement of comprehensive income during the year (note 12)	(2,390)	11,000	8,610
At 31 December 2010 and 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 12)	**(185)**	**—**	**(185)**
At 31 December 2011	**5,930**	**8,279**	**14,209**

23. DEFERRED TAX *(continued)*

The Group had tax losses arising in the PRC of approximately RMB2,141,000 and RMB4,058,000 as at 31 December 2010 and 2011, 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.

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 2011, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in the PRC. In the opinion of the Directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB676,451,000 at 31 December 2011 (2010: RMB243,044,000).

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

24. INVENTORIES

	Group	
	2011	2010
	RMB'000	RMB'000
Raw materials	**19,107**	24,004
Work in progress	**13,964**	9,193
Finished goods	**303,383**	179,665
	336,454	212,862

25. TRADE RECEIVABLES

	Group	
	2011	2010
	RMB'000	RMB'000
Trade receivables	**106,504**	91,885
Impairment	**(1,409)**	(1,380)
Trade receivables, net	**105,095**	90,505

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 receivables approximate to their fair values.

An aged analysis of the trade receivables as at 31 December 2010 and 2011, based on the invoice date and net of provision, is as follows:

	Group	
	2011	2010
	RMB'000	RMB'000
Within 60 days	**99,596**	87,775
61 to 90 days	**2,521**	2,105
91 to 180 days	**2,537**	452
181 to 360 days	**441**	169
Over 360 days	**—**	4
	105,095	90,505

25. TRADE RECEIVABLES *(continued)*

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

	Group	
	2011	2010
	RMB'000	RMB'000
At 1 January	**1,380**	1,195
Impairment losses recognised	**29**	185
At 31 December	**1,409**	1,380

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.

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

	Group	
	2011	2010
	RMB'000	RMB'000
Neither past due nor impaired	**99,596**	84,493
1 to 180 days past due	**5,058**	5,840
181 to 360 days past due	**441**	168
Over 360 days past due	**—**	4
	105,095	90,505

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.

26. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company
	2011	2010	**2011**
	RMB'000	RMB'000	**RMB'000**
Prepayments	**36,593**	36,655	**29**
Deposits and other receivables	**12,266**	9,799	**—**
	48,859	46,454	**29**

Other receivable of RMB1,800,000, as at 31 December 2010 and 2011, 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.

27. INVESTMENT DEPOSITS

	Group	
	2011	2010
	RMB'000	RMB'000
Investment deposits, in licensed banks in Mainland China, at amortised cost	**245,000**	—

The investment deposits were repaid to the Group subsequent to 31 December 2011.

28. PLEDGED BANK DEPOSITS AND CASH AND CASH EQUIVALENTS

	Group		Company
	2011	2010	**2011**
	RMB'000	RMB'000	**RMB'000**
Cash and bank balances	**773,031**	173,910	**486,109**
Time deposits	**266,000**	447,992	**–**
	1,039,031	621,902	**486,109**
Less: Bank deposits pledged for issuing bank acceptance notes	**(3,952)**	(14,812)	**–**
Cash and cash equivalents as stated in the consolidated statement of financial position	**1,035,079**	607,090	**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 RMB548,259,000 (2010: RMB602,508,000). The RMB is not freely convertible into other currencies, however, under the PRC'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.

29. TRADE AND BILLS PAYABLES

An aged analysis of the trade payables as at 31 December 2010 and 2011, based on the invoice date, and the balances of bills payable is as follows:

	Group	
	2011	2010
	RMB'000	RMB'000
Trade payables		
Within 30 days	**20,999**	33,849
31 to 90 days	**844**	581
91 to 180 days	**570**	211
181 to 360 days	**61**	—
Over 360 days	**—**	33
	22,474	34,674
Bills payables	**3,952**	14,812
	26,426	49,486

The trade payables are non-interest-bearing and are normally settled on terms of 30 to 45 days. The bills payables are all due to mature within 60 days.

30. DEPOSITS RECEIVED, OTHER PAYABLES AND ACCRUALS

	Group		Company
	2011	2010	**2011**
	RMB'000	RMB'000	**RMB'000**
Advances from customers	**88,708**	82,653	**—**
Other payables	**55,024**	44,975	**—**
Accruals	**47,590**	13,741	**16,092**
Other taxes payable	**5,894**	8,882	**—**
	197,216	150,251	**16,092**

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

31. ISSUED CAPITAL

	2011 HK$'000	2010 HK$'000
Authorised:		
1,000,000,000,000 (2010: nil) ordinary shares of HK$0.1 each	**100,000,000**	—
Issued and fully paid:		
3,426,510,000 (2010: nil) ordinary shares of HK$0.1 each	**342,651**	—
Equivalent to RMB'000	**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 HK$'000	Issued capital RMB'000	Share premium account HK$'000	Share premium account RMB'000	Total HK$'000	Total RMB'000
At 1 January 2010, 31 December 2010 and 1 January 2011	(a)	–	–	–	–	–	–	–
Issue of shares of incorporation and Reorganisation	(b)	98,225	10	8	–	–	10	8
Capitalisation issue	(c)	2,946,651,775	294,665	240,031	(294,665)	(240,031)	–	–
Issue of new shares for the initial public offering (the "IPO")	(d)	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		–	–	–	(252,007)	(204,113)	(252,007)	(204,113)
At 31 December 2011		3,426,510,000	342,651	279,120	137,900	113,630	480,551	392,750

Notes:

(a) There was no authorised and issued capital on 1 January 2010, 31 December 2010 and 1 January 2011 because the Company was not yet incorporated.

(b) On 7 March 2011, the Company was incorporated with authorised share capital of HK$100,000,000,000 divided into 100,000,000,000 shares of HK$1 each and 1 of which was issued and fully paid at par. The share capital of the Company was subsequently sub-divided into 1,000,000,000,000 shares of HK$0.10 each. On 3 June 2011, the Company issued 98,215 ordinary shares to CEC Outfitters to acquire the entire interests of Doright Group Limited, London Fog (China) and Shinemax held by CEC Outfitters as part of the Reorganisation.

31. ISSUED CAPITAL *(continued)*

Notes: *(continued)*

(c) Pursuant to the written resolutions of the shareholders passed on 25 November 2011 (the "Resolutions"), subject to the share premium account of the Company having sufficient balance, or otherwise being credited as a result of the issue of shares pursuant to the IPO, the Directors were authorised to allot and issue a total of 2,946,651,775 shares credited as fully paid at par to the holders of shares on the register of members of the Company on 25 November 2011 in proportion to their respective shareholdings by way of capitalisation of the sum of HK$294,665,177.50 standing to the credit of the share premium account of the Company, and the shares allotted and issued pursuant to the Resolutions rank pari passu in all respects with the existing issued shares.

(d) In connection with the Company's IPO, 479,760,000 shares of HK$0.10 each were issued at a price of HK$1.64 per share for a total cash consideration, before listing expenses, of HK$786,806,400 (equivalent to approximately RMB640,926,000). Dealings of these shares on the Stock Exchange commenced on 9 December 2011.

32. SHARE OPTION SCHEME

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 Resolutions.

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 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 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-fourths (1/4) of the share options shall become vested and exercisable on 9 December 2012, 2013, 2014 and 2015, respectively.

32. SHARE OPTION SCHEME *(continued)*

Pre-IPO Share Option Scheme *(continued)*

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

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 RMB1,529,000 during the year ended 31 December 2011.

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 2011, the Company had 205,552,000 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 205,552,000 additional ordinary shares of the Company and additional share capital of HK$20,555,200 (equivalent to RMB16,659,000) and share premium of HK$316,550,080 (equivalent to RMB256,544,000) (before issue expenses).

At the date of approval of these financial statements, the Company had 205,552,000 share options outstanding under the Pre-IPO Share Option Scheme, which represented approximately 5.95% of the Company's shares in issue as at that date.

32. SHARE OPTION SCHEME *(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 the 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.

32. 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 2011 and the date of approval of these financial statements, no share option was granted and outstanding under the Share Option Scheme.

33. 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.

33. RESERVES *(continued)*

Company

	Share premium account RMB'000	Contributed surplus RMB'000	Share option reserve RMB'000	Exchange fluctuation reserve RMB'000	Accumulated loss RMB'000	Total RMB'000
As at 7 March 2011 (date of incorporation)	—	—	—	—	—	—
Total comprehensive income 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)
Share option reserve	—	—	1,529	—	—	1,529
Proposed final 2011 dividend	(204,113)	—	—	—	—	(204,113)
As at 31 December 2011	113,630	3,873,324	1,529	(97,891)	(33,989)	3,856,603

The Company's contributed surplus represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the Reorganisation referred to in note 1, 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 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 payment transactions in note 4 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.

34. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (note 18 to the financial statements) under operating lease arrangements, with leases negotiated for terms ranging from one to three years.

At 31 December 2011, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2011	2010
	RMB'000	RMB'000
Within one year	**224**	495
In the second to fifth years, inclusive	**256**	337
	480	832

(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 2011, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2011	2010
	RMB'000	RMB'000
Within one year	**2,574**	4,925
In the second to fifth years, inclusive	**1,008**	2,717
	3,582	7,642

35. COMMITMENTS

In addition to the operating lease commitments detailed in note 34(b), the Group had the following capital commitments at the end of the reporting period:

	Group	
	2011 **RMB'000**	2010 RMB'000
Contracted, but not provided for:		
Land and buildings	**1,875**	11,005
Plant and machinery	**—**	179
	1,875	11,184

36. CONTINGENT LIABILITIES

The Group had no significant contingent liabilities as at 31 December 2010 and 2011.

37. RELATED PARTY TRANSACTIONS AND BALANCES

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with a related party during the year:

	Group	
	2011 **RMB'000**	2010 RMB'000
Sales of goods:		
Iconix China Limited ("Iconix")	**—**	23

Iconix is the controlling shareholder of ICL-London Fog Limited, a then non-controlling shareholder of a subsidiary.

The sales were made at prices based on mutual agreements between parties with reference to the ordinary course of business.

37. RELATED PARTY TRANSACTIONS AND BALANCES *(continued)*

(b) Outstanding balance with a related party

	Group	
	2011	2010
	RMB'000	RMB'000
Due to a related party		
CEC Outfitters (i)	**—**	146,267

Notes:

(i) CEC Outfitters is the holding company of the Company. The balance has been fully settled by the proceeds from the IPO.

(c) Compensation of key management personnel of the Group, including directors' remuneration as detailed in note 10 above, is as follows:

	Group	
	2011	2010
	RMB'000	RMB'000
Fees	**1,316**	—
Salaries, allowances and benefits in kind	**3,138**	14,890
Equity-settled share option expenses	**1,340**	—
Pension scheme contributions	**88**	58
Total compensation paid to key management personnel	**5,882**	14,948

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.

38. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

During the year ended 31 December 2011, the Group acquired the remaining 33.33% equity interest in the London Fog (China) by the issuance of 2,233 shares in CEC Outfitters.

39. FINANCIAL INSTRUMENTS BY CATEGORY

Financial assets

The Group's financial assets at 31 December 2010 and 2011 include trade receivables, deposits and other receivables, pledged bank deposits and cash and cash equivalents, which are categorised as loans and receivables, and investment deposits categorised as held-to-maturity financial assets.

The Company's financial assets at 31 December 2010 and 2011 include cash and cash equivalents and amounts due from subsidiaries.

Financial liabilities

The Group's financial liabilities at the end of the reporting period, including trade and bills payables and other payables, are categorised as loans and borrowings at amortised cost.

40. FAIR VALUE OF FINANCIAL INSTRUMENTS

The financial assets and liabilities of the Group and the Company at 31 December 2010 and 2011 are detailed in note 39 to the financial statements.

At 31 December 2010 and 2011, the fair values of the Group's financial assets and financial liabilities approximated to their respective 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 investment 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 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 the pledged bank deposits and cash and cash equivalents (note 28) and investment deposits (note 27). 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 the 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 HK$ against RMB exchange rate, with all other variables held constant, of the Group's equity:

	Increase/ (decrease) in HK$ exchange rate	**Increase/ (decrease) in equity***
	%	RMB'000
31 December 2011		
If RMB weakens against HK$	**5**	**30,278**
If RMB strengthens against HK$	**(5)**	**(30,278)**
31 December 2010		
If RMB weakens against HK$	5	(6,173)
If RMB strengthens against HK$	(5)	6,173

* 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 receivables are widely dispersed among different customers. Further quantitative data in respect of the Group's exposure to credit risk arising from trade and other receivables are disclosed in notes 25 and 26.

The credit risk of the Group's other financial assets, which mainly comprise cash and cash equivalents and investment 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 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**

	31 December 2010		
	On demand RMB'000	Less than 1 year RMB'000	Total RMB'000
Trade and bills payables	—	49,486	49,486
Other payables	—	44,975	44,975
Due to a related party	146,267	—	146,267
	146,267	94,461	240,728

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 period were as follows:

	2011 **RMB'000**	2010 RMB'000
Trade and bills payables	**26,426**	49,486
Other payables	**55,024**	44,975
Amount due to a related party	**—**	146,267
Less: Cash and cash equivalents	**(1,035,079)**	(607,090)
Pledged bank deposits	**(3,952)**	(14,812)
Net debt/(assets)	**(957,581)**	(381,174)
Capital — equity attributable to owners of the parent	**1,656,058**	696,259
Capital and net debt	**698,477**	315,085
Gearing ratio	**N/A**	N/A

42. EVENT AFTER THE REPORTING PERIOD

The following significant event took place subsequent to 31 December 2011:

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 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) and the issued capital of the Company was increased to RMB281,204,000 on 5 January 2012.

43. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board on 19 March 2012.

Financial Summary

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

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

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