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

# 2012
# Interim Report

## Contents

## CORPORATE INFORMATION

**Executive Directors**
Mr. LO Peter
Mr. ZHANG Yongli
Mr. SUN David Lee
Ms. HUANG Xiaoyun

**Non-Executive Directors**
Mr. LI Guoqiang
Mr. WANG Wei

**Independent Non-Executive Directors**
Mr. KWONG Wilson Wai Sun
Mr. CUI Yi
Mr. YEUNG Chi Wai

**Company Secretary**
Ms. LI Rita Yan Wing

**Authorised Representatives**
Mr. LO Peter
Mr. SUN David Lee

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

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

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

**Registered Office**
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

**Hong Kong Share Registrar and Transfer Office**
Tricor Investor Services Limited
26/F, Tesbuy Centre
28 Queen's Road East
Wanchai
Hong Kong

**Principal Bankers**
The Hongkong and Shanghai Banking Corporation Limited
China Merchants Bank Co., Ltd., Hong Kong Branch

**Compliance Adviser**
South West Capital Limited

**Legal Advisor**
Herbert Smith LLP

**Investor Relations**
Hill + Knowlton Strategies

**Auditors**
Ernst & Young, Certified Public Accountants

**Company Website**
www.cohl.hk

## Financial Highlights

| | Six months ended 30 June | | |
|---|---|---|---|
| | **2012** | 2011 | Changes |
| Revenue (RMB million) | **660.9** | 542.1 | + 21.9% |
| Gross profit (RMB million) | **506.0** | 409.2 | + 23.7% |
| Operating profit (RMB million) | **282.1** | 243.4 | + 15.9% |
| Profit attributable to owners of the parent (RMB million) | **220.2** | 178.2 | + 23.6% |
| Net cash inflows from operating activities (RMB million) | **159.5** | 127.7 | + 24.9% |
| Earnings per share – Basic and diluted[1] (RMB cents) | **6.4** | 6.0 | + 6.7% |
| Gross profit margin | **76.6%** | 75.5% | + 1.1 p.p.t. |
| Operating profit margin | **42.7%** | 44.9% | – 2.2 p.p.t. |
| Net profit margin | **33.3%** | 33.0% | + 0.3 p.p.t. |
| Effective tax rate | **27.8%** | 27.9% | – 0.1 p.p.t. |

| | **As at 30 June 2012** | As at 31 December 2011 | Changes |
|---|---|---|---|
| Current ratio[2] (times) | **5.0** | 4.4 | + 0.6 times |
| Trade and bills receivables turnover days[3] (days) | **27** | 29 | – 2 days |
| Trade and bills payables turnover days[4] (days) | **33** | 35 | – 2 days |
| Inventory turnover days[5] (days) | **399** | 336 | + 63 days |

Key ratios:

1. Basic earnings per share = Profit attributable to owners of the parent/weighted average number of ordinary shares (the weighted average number of shares for the six months ended 30 June 2012 was 3,451,586,071, versus 2,946,750,000 in the same period of last year)

   No adjustment has been made to the basic earnings per share amounts presented for the six months ended 30 June 2012 and 2011 in respect of a dilution as the share options under Pre-IPO Share Option Scheme outstanding had an anti-dilutive effect on the basic earnings per share amounts presented.

2. Current ratio = Current assets/current liabilities

3. Trade and bills receivables turnover days = Average of opening and closing balances on trade and bills receivables/revenue for the period x 180 days

4. Trade and bills payables turnover days = Average of opening and closing balances on trade and bills payables/cost of sales for the period x 180 days

5 Inventory turnover days = Average of opening and closing balances on inventory/cost of sales x 180 days

**Report on review of interim condensed consolidated financial statements**
**To the board of directors of China Outfitters Holdings Limited**
*(Incorporated in the Cayman Islands with limited liability)*

## Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of China Outfitters Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") as at 30 June 2012 set out on pages 7 to 29, which comprise the interim condensed consolidated statement of financial position as at 30 June 2012, the interim condensed consolidated statements of comprehensive income, changes in equity and cash flows for the six-month period then ended and explanatory notes. The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") issued by the International Accounting Standards Board.

The directors are responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

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

20 August 2012

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

**For the six months ended 30 June 2012**

| | Notes | Six months ended 30 June 2012 RMB'000 (Unaudited) | 2011 RMB'000 (Audited) |
|---|---|---|---|
| **REVENUE** | 5 | **660,944** | 542,081 |
| Cost of sales | | **(154,968)** | (132,923) |
| Gross profit | | **505,976** | 409,158 |
| Other income and gains, net | 5 | **22,412** | 18,076 |
| Selling and distribution costs | | **(208,818)** | (156,406) |
| Administrative expenses | | **(34,514)** | (13,265) |
| Other expenses | | **(2,956)** | (14,176) |
| Operating profit | | **282,100** | 243,387 |
| Finance income | 6 | **23,057** | 4,948 |
| **PROFIT BEFORE TAX** | 7 | **305,157** | 248,335 |
| Income tax expense | 8 | **(84,910)** | (69,254) |
| **PROFIT FOR THE PERIOD** | | **220,247** | 179,081 |
| **OTHER COMPREHENSIVE INCOME** | | | |
| Exchange differences on translation of foreign operations | | **1,723** | 797 |
| **TOTAL COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX** | | **221,970** | 179,878 |
| Profit attributable to: | | | |
| Owners of the parent | | **220,235** | 178,189 |
| Non-controlling interests | | **12** | 892 |
| | | **220,247** | 179,081 |
| Total comprehensive income attributable to: | | | |
| Owners of the parent | | **221,958** | 178,986 |
| Non-controlling interests | | **12** | 892 |
| | | **221,970** | 179,878 |
| **EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT** | | | |
| Basic and diluted | 10 | **RMB6.4 cents** | RMB6.0 cents |

Details of the dividend for the period are disclosed in note 9 to the interim condensed consolidated financial statements.

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

**30 June 2012**

| | Notes | **30 June 2012 RMB'000 (Unaudited)** | 31 December 2011 RMB'000 (Audited) |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 11 | **82,600** | 81,762 |
| Prepaid land lease payments | 12 | **42,413** | 42,913 |
| Investment properties | | **5,471** | 5,538 |
| Goodwill | | **70,697** | 70,697 |
| Other intangible assets | 11 | **67,981** | 67,729 |
| Deferred tax assets | | **37,385** | 31,244 |
| Total non-current assets | | **306,547** | 299,883 |
| **CURRENT ASSETS** | | | |
| Inventories | 13 | **350,838** | 336,454 |
| Trade and bills receivables | 14 | **95,416** | 105,095 |
| Prepayments, deposits and other receivables | 15 | **63,434** | 48,859 |
| Investment deposits | 16 | **757,294** | 245,000 |
| Pledged bank deposits | 17 | **–** | 3,952 |
| Cash and cash equivalents | 17 | **526,377** | 1,035,079 |
| Total current assets | | **1,793,359** | 1,774,439 |
| **CURRENT LIABILITIES** | | | |
| Trade and bills payables | 18 | **29,673** | 26,426 |
| Deposits received, other payables and accruals | 19 | **168,426** | 197,216 |
| Tax payable | | **157,707** | 175,861 |
| Total current liabilities | | **355,806** | 399,503 |
| **NET CURRENT ASSETS** | | **1,437,553** | 1,374,936 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **1,744,100** | 1,674,819 |
| **NON-CURRENT LIABILITIES** | | | |
| Deferred tax liabilities | | **16,317** | 14,209 |
| Net assets | | **1,727,783** | 1,660,610 |

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(continued)*

**30 June 2012**

| | Notes | **30 June 2012 RMB'000 (Unaudited)** | 31 December 2011 RMB'000 (Audited) |
|---|---|---|---|
| **EQUITY** | | | |
| Equity attributable to owners of the parent | | | |
| Issued capital | 20 | **281,204** | 279,120 |
| Reserves | | **1,442,015** | 1,172,825 |
| Proposed final dividend | 9 | **–** | 204,113 |
| | | **1,723,219** | 1,656,058 |
| Non-controlling interests | | **4,564** | 4,552 |
| Total equity | | **1,727,783** | 1,660,610 |

**LO Peter**
*Director*

**SUN David Lee**
*Director*

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

## For the six months ended 30 June 2012

| | Attributable to owners of the parent | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Issued capital RMB'000 *(note 20)* | Share premium RMB'000 | Merger reserve RMB'000 | Acquisition reserve RMB'000 | Share option reserve RMB'000 *(note 21)* | Statutory surplus reserve RMB'000 | Exchange fluctuation reserve RMB'000 | Retained profits RMB'000 | Proposed final dividend RMB'000 | Total RMB'000 | Non-controlling interests RMB'000 | Total equity RMB'000 |
| **Unaudited** | | | | | | | | | | | | |
| At 1 January 2012 | 279,120 | 113,630* | 389,848* | (186,036)* | 1,529* | 35,247* | 5,337* | 813,270* | 204,113 | 1,656,058 | 4,552 | 1,660,610 |
| Total comprehensive income for the period | - | - | - | - | - | - | 1,723 | 220,235 | - | 221,958 | 12 | 221,970 |
| Issue of shares | 2,084 | 32,086 | - | - | - | - | - | - | - | 34,170 | - | 34,170 |
| Share issue expenses | - | (1,028) | - | - | - | - | - | - | - | (1,028) | - | (1,028) |
| Equity-settled share option arrangements | - | - | - | - | 16,174 | - | - | - | - | 16,174 | - | 16,174 |
| Final 2011 dividend declared | - | - | - | - | - | - | - | - | (204,113) | (204,113) | - | (204,113) |
| At 30 June 2012 | 281,204 | 144,688* | 389,848* | (186,036)* | 17,703* | 35,247* | 7,060* | 1,033,505* | - | 1,723,219 | 4,564 | 1,727,783 |
| **Audited** | | | | | | | | | | | | |
| At 1 January 2011 | – | – | 302,099 | (125,864) | – | 11,971 | 4,677 | 503,376 | – | 696,259 | 29,137 | 725,396 |
| Total comprehensive income for the period | – | – | – | – | – | – | 797 | 178,189 | – | 178,986 | 892 | 179,878 |
| Reserve arising from the Reorganisation | – | – | 87,757 | (60,172) | – | – | – | – | – | 27,585 | (27,585) | – |
| Issue of shares | 8 | – | (8) | – | – | – | – | – | – | – | – | – |
| Dividend declared | – | – | – | – | – | – | – | (75,056) | – | (75,056) | – | (75,056) |
| At 30 June 2011 | 8 | – | 389,848 | (186,036) | – | 11,971 | 5,474 | 606,509 | – | 827,774 | 2,444 | 830,218 |

* These components of equity comprise the consolidated reserves of RMB1,442,015,000 (31 December 2011: RMB1,172,825,000) in the interim condensed consolidated statement of financial position as at 30 June 2012.

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

**For the six months ended 30 June 2012**

| | Note | Six months ended 30 June 2012 RMB'000 (Unaudited) | 2011 RMB'000 (Audited) |
|---|---|---|---|
| Net cash flows from operating activities | | **159,512** | 127,659 |
| Net cash flows from/(used in) investing activities | | **(770,452)** | 1,764 |
| Net cash flows used in financing activities | | **(170,971)** | (22,096) |
| **NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS** | | **(781,911)** | 107,327 |
| Effect of foreign exchange rate changes, net | | **1,137** | 2,022 |
| Cash and cash equivalents at beginning of period | | **1,036,031** | 608,722 |
| **CASH AND CASH EQUIVALENTS AT END OF PERIOD** | | **255,257** | 718,071 |
| **ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS** | | | |
| Cash and bank balances | | **255,257** | 209,622 |
| Time deposits | | **271,120** | 521,629 |
| Cash and cash equivalents as stated in the interim condensed consolidated statement of financial position | 17 | **526,377** | 731,251 |
| Less: Time deposits with original maturity of over three months | | **(271,120)** | (13,180) |
| Cash and cash equivalents as stated in the interim condensed consolidated statement of cash flows | | **255,257** | 718,071 |

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

**30 June 2012**

## 1. CORPORATE INFORMATION

The Company was incorporated in the Cayman Islands on 7 March 2011 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The registered office of the Company is 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 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 period.

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

## 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

*Basis of preparation*

These interim condensed consolidated financial statements of the Group for the six months ended 30 June 2012 (the "Reporting Period") have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") and International Accounting Standard ("IAS") 34 *Interim Financial Reporting* issued by the International Accounting Standards Board.

These interim condensed consolidated financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated. They do not include all information and disclosures required in the Group's annual consolidated financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2011.

## 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES *(continued)*

*Significant accounting policies*

Except as described below, the accounting policies adopted in the preparation of these interim condensed consolidated financial statements are the same as those adopted in the Group's annual consolidated financial statements for the year ended 31 December 2011. The Group has adopted the following revised International Financial Reporting Standards ("IFRSs") for the first time for the current period's interim condensed consolidated financial statements.

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

The adoption of these revised IFRSs has had no significant financial effect on these interim condensed consolidated financial statements.

## 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 unaudited interim condensed consolidated financial statements.

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

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

The Group is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application, but is not yet in a position to state whether these new and revised IFRSs will have a significant impact on the Group's results of operations and financial position.

## 4. 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 Segments* requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision makers 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 Reporting Period 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 Reporting Period presented.

## 5. 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:

| | Six months ended 30 June | |
|---|---|---|
| | **2012 RMB'000 (Unaudited)** | 2011 RMB'000 (Audited) |
| **Revenue** | | |
| Sale of goods | **660,944** | 542,081 |
| **Other income and gains, net** | | |
| Government subsidies* | **19,845** | 16,455 |
| Arrangement fees# | **1,377** | 1,140 |
| Rental income, net | **131** | 208 |
| Sale of consumables, net | **932** | 200 |
| Others | **127** | 73 |
| | **22,412** | 18,076 |

## 5. REVENUE AND OTHER INCOME AND GAINS, NET *(continued)*

* 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 fees paid by third-party retailers when they enter into initial retail agreements with the Group.

## 6. FINANCE INCOME

| | Six months ended 30 June | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| | **(Unaudited)** | (Audited) |
| Interest income on bank deposits | **9,140** | 4,948 |
| Interest income from investment deposits | **13,917** | – |
| | **23,057** | 4,948 |

## 7. PROFIT BEFORE TAX

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

| | | Six months ended 30 June | |
|---|---|---|---|
| | | **2012** | 2011 |
| | | **RMB'000** | RMB'000 |
| | Notes | **(Unaudited)** | (Audited) |
| Cost of inventories sold | | **123,397** | 116,191 |
| Depreciation | | | |
| Property, plant and equipment | 11 | **4,204** | 4,031 |
| Investment properties | | **67** | 67 |
| | | **4,271** | 4,098 |
| Amortisation of prepaid land lease payments* | 12 | **477** | 324 |
| Amortisation of other intangible assets* | 11 | **124** | 124 |
| Impairment of trade receivables | | **–** | (68) |
| Write-down of inventories to net realisable value# | | **31,571** | 16,732 |
| Foreign exchange losses, net** | | **2,956** | – |

## 7. PROFIT BEFORE TAX *(continued)*

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

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

** The items are included in "Other expenses" in the interim condensed consolidated statement of comprehensive income.

## 8. 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 Reporting Period.

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 periods ended 30 June 2012 and 2011.

| | **Six months ended 30 June** | |
|---|---|---|
| | **2012 RMB'000 (Unaudited)** | 2011 RMB'000 (Audited) |
| Current – PRC | | |
| Charge for the period | **88,943** | 69,611 |
| Deferred | **(4,033)** | (357) |
| Total tax charge for the period | **84,910** | 69,254 |

## 9. DIVIDEND

The board of directors (the "Board") has resolved not to declare any interim dividend in respect of the Reporting Period (six months ended 30 June 2011: Nil).

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

## 10. 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 Reporting Period attributable to ordinary equity holders of the parent of RMB220,235,000 (six months ended 30 June 2011: RMB178,189,000) and the weighted average number of ordinary shares of 3,451,586,071 (six months ended 30 June 2011: 2,946,750,000) in issue during the Reporting Period.

The number of ordinary shares used to calculate the basic earnings per share for the six months ended 30 June 2011 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 corporate reorganisation (the "Reorganisation") detailed in the prospectus of the Company dated 29 November 2011 had been effective since 1 January 2010.

No adjustment has been made to the basic earnings per share amounts presented for the Reporting Period and six months ended 30 June 2011 in respect of a dilution as the share options under Pre-IPO Share Option Scheme (defined below) outstanding had an anti-dilutive effect on the basic earnings per share amounts presented.

| | Six months ended 30 June | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| | **(Unaudited)** | (Audited) |
| **Earnings** | | |
| Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation | **220,235** | 178,189 |

| | Number of shares | |
|---|---|---|
| | Six months ended 30 June | |
| | **2012** | 2011 |
| **Shares** | | |
| Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation | **3,451,586,071** | 2,946,750,000 |

## 11. PROPERTY, PLANT AND EQUIPMENT AND OTHER INTANGIBLE ASSETS

| | Property, plant and equipment RMB'000 | Other intangible assets RMB'000 |
|---|---|---|
| **Unaudited** | | |
| Opening net book amount at 1 January 2012 | **81,762** | **67,729** |
| Additions | **5,058** | **–** |
| Disposals | **(16)** | **–** |
| Depreciation and amortisation provided during the period | **(4,204)** | **(124)** |
| Exchange realignment | **–** | **376** |
| Closing net book amount at 30 June 2012 | **82,600** | **67,981** |
| **Audited** | | |
| Opening net book amount at 1 January 2011 | 82,358 | 71,102 |
| Additions | 6,490 | – |
| Disposals | (333) | – |
| Depreciation and amortisation provided during the year | (6,753) | (249) |
| Exchange realignment | – | (3,124) |
| Closing net book amount at 31 December 2011 | 81,762 | 67,729 |

As at 30 June 2012, a certificate of ownership in respect of a warehouse in Chengdu with a net carrying amount of approximately RMB6,988,000 has not been issued by the relevant PRC authorities. The Group is in the process of obtaining the certificate.

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 consider that the approval will be obtained within six months after 30 June 2012.

## 12. PREPAID LAND LEASE PAYMENTS

| | 30 June 2012 RMB'000 (Unaudited) | 31 December 2011 RMB'000 (Audited) |
|---|---|---|
| Opening net book amount | **43,843** | 30,206 |
| Additions | **–** | 14,375 |
| Amortisation charged during the period/year | **(477)** | (738) |
| Closing net book amount | **43,366** | 43,843 |
| Current portion included in prepayments, deposits and other receivables | **(953)** | (930) |
| Non-current portion | **42,413** | 42,913 |

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

As at 30 June 2012, a certificate of use right in respect of a piece of land in Shanghai with a net carrying amount of approximately RMB14,139,000 has not been issued by the relevant PRC authorities. The Group is in the process of obtaining the certificate.

## 13. INVENTORIES

| | 30 June 2012 RMB'000 (Unaudited) | 31 December 2011 RMB'000 (Audited) |
|---|---|---|
| Raw materials | **35,835** | 19,107 |
| Work in progress | **12,389** | 13,964 |
| Finished goods | **302,614** | 303,383 |
| | **350,838** | 336,454 |

## 14. TRADE AND BILLS RECEIVABLES

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 fact that the Group's trade and bills 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 unsecured, non-interest-bearing and the carrying amounts of the trade and bills receivables approximate to their fair values.

An aged analysis of the trade receivables as at 30 June 2012 and 31 December 2011, based on the invoice date and net of provision and the balances of bills receivable, is as follows:

| | **30 June 2012 RMB'000 (Unaudited)** | 31 December 2011 RMB'000 (Audited) |
|---|---|---|
| Trade receivables | | |
| Within 60 days | **92,880** | 99,596 |
| 61 to 90 days | **1,293** | 2,521 |
| 91 to 180 days | **559** | 2,537 |
| 181 to 360 days | **479** | 441 |
| | **95,211** | 105,095 |
| Bills receivable | **205** | – |
| | **95,416** | 105,095 |

## 15. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | **30 June 2012 RMB'000 (Unaudited)** | 31 December 2011 RMB'000 (Audited) |
|---|---|---|
| Prepayments | **41,680** | 36,593 |
| Deposits and other receivables | **21,754** | 12,266 |
| | **63,434** | 48,859 |

Other receivable of RMB1,800,000, as at 30 June 2012 and 31 December 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 above balances are unsecured, non-interest-bearing and repayable on demand.

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.

## 16. INVESTMENT DEPOSITS

| | **30 June 2012 RMB'000 (Unaudited)** | 31 December 2011 RMB'000 (Audited) |
|---|---|---|
| Structured bank deposits, in licensed banks in Mainland China, at amortised cost | **757,294** | 245,000 |

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

## 17. PLEDGED BANK DEPOSITS AND CASH AND CASH EQUIVALENTS

| | 30 June 2012 RMB'000 (Unaudited) | 31 December 2011 RMB'000 (Audited) |
|---|---|---|
| Cash and bank balances | 255,257 | 773,031 |
| Time deposits | 271,120 | 266,000 |
| | 526,377 | 1,039,031 |
| Less: Bank deposits pledged for issuing bank acceptance notes | – | (3,952) |
| Cash and cash equivalents as stated in the interim condensed consolidated statement of financial position | 526,377 | 1,035,079 |

At the end of the Reporting Period, the cash and bank balances and time deposits of the Group denominated in RMB amounted to RMB230,061,000 (31 December 2011: RMB548,259,000) which are 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 three months 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.

## 18. TRADE AND BILLS PAYABLES

An aged analysis of the trade payables as at 30 June 2012 and 31 December 2011, based on the invoice date, and the balances of bills payable, is as follows:

| | 30 June 2012 RMB'000 (Unaudited) | 31 December 2011 RMB'000 (Audited) |
|---|---|---|
| Trade payables | | |
| Within 30 days | 27,780 | 20,999 |
| 31 to 90 days | 1,815 | 844 |
| 91 to 180 days | 68 | 570 |
| 181 to 360 days | 10 | 61 |
| | 29,673 | 22,474 |
| Bills payable | – | 3,952 |
| | 29,673 | 26,426 |

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

## 19. DEPOSITS RECEIVED, OTHER PAYABLES AND ACCRUALS

| | 30 June 2012 RMB'000 (Unaudited) | 31 December 2011 RMB'000 (Audited) |
|---|---|---|
| Advances from customers | 92,613 | 88,708 |
| Other payables | 55,434 | 55,024 |
| Accruals | 7,724 | 47,590 |
| Other taxes payable | 12,655 | 5,894 |
| | 168,426 | 197,216 |

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

## 20. ISSUED CAPITAL

| | 30 June 2012 HK$'000 (Unaudited) | 31 December 2011 HK$'000 (Audited) |
|---|---|---|
| Authorised: | | |
| 1,000,000,000,000 (31 December 2011: 1,000,000,000,000) ordinary shares of HK$0.1 each | **100,000,000** | 100,000,000 |
| Issued and fully paid: | | |
| 3,452,148,000 (31 December 2011: 3,426,510,000) ordinary shares of HK$0.1 each | **345,215** | 342,651 |
| Equivalent to RMB'000 | **281,204** | 279,120 |

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

## 21. 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 written resolutions of the shareholders passed on 25 November 2011. The terms and conditions of the share option schemes are disclosed in the consolidated financial statements for the year ended 31 December 2011.

*Pre-IPO Share Option Scheme*

A summary of option movements during the period is presented below:

| | Six months ended 30 June 2012 | | Year ended 31 December 2011 | |
|---|---|---|---|---|
| | **Weighted average exercise price HK$ per share** | **Number of options** | Weighted average exercise price HK$ per share | Number of options |
| At beginning of period/year | **1.64** | **205,552,000** | – | – |
| Granted | **–** | **–** | 1.64 | 205,552,000 |
| Forfeited | **1.64** | **(6,328,000)** | – | – |
| At the end of period/year | **1.64** | **199,224,000** | 1.64 | 205,552,000 |

The Group recognised a share option expenses of RMB16,174,000 in the Reporting Period (six months ended 30 June 2011: Nil)

No share option was exercised during the Reporting Period. As at 30 June 2012, the Company had 199,224,000 share options outstanding under the Pre-IPO Share Option Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 199,224,000 additional ordinary shares of the Company and additional share capital of HK$19,922,400 (equivalent to RMB16,240,740) and share premium of HK$306,804,960 (equivalent to RMB250,107,403) (before share issue expenses).

At the date of approval of these interim condensed consolidated financial statements, the Company had 199,224,000 share options outstanding under the Pre-IPO Share Option Scheme, which represented approximately 5.77% of the Company's shares in issue as at that date.

*Share Option Scheme*

As at 30 June 2012 and the date of approval of these interim condensed consolidated financial statements, no share option was granted and outstanding under the Share Option Scheme.

## 22. OPERATING LEASE ARRANGEMENTS

(a) *As lessor*

The Group leases its investment properties under operating lease arrangements, with leases negotiated for terms ranging from one to three years.

At 30 June 2012, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

| | **30 June 2012 RMB'000 (Unaudited)** | 31 December 2011 RMB'000 (Audited) |
|---|---|---|
| Within one year | **148** | 224 |
| In the second to fifth years, inclusive | **63** | 256 |
| | **211** | 480 |

(b) *As lessee*

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

At 30 June 2012, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | **30 June 2012 RMB'000 (Unaudited)** | 31 December 2011 RMB'000 (Audited) |
|---|---|---|
| Within one year | **2,774** | 2,574 |
| In the second to fifth years, inclusive | **1,786** | 1,008 |
| | **4,560** | 3,582 |

## 23. COMMITMENTS

In addition to the operating lease commitments detailed in note 22(b), the Group had the following capital commitments at the end of the Reporting Period:

| | **30 June 2012 RMB'000 (Unaudited)** | 31 December 2011 RMB'000 (Audited) |
|---|---|---|
| Contracted, but not provided for: | | |
| Land and buildings | **6,766** | 1,875 |

## 24. CONTINGENT LIABILITIES

The Group had no significant contingent liabilities as at 30 June 2012 and 31 December 2011.

## 25. RELATED PARTY TRANSACTIONS

Compensation of key management personnel of the Group, including Directors' remuneration, is as follows:

| | **Six months ended 30 June** | |
|---|---|---|
| | **2012 RMB'000 (Unaudited)** | 2011 RMB'000 (Audited) |
| Fees | **1,183** | – |
| Salaries, allowances and benefits in kind | **2,198** | 1,107 |
| Equity-settled share option expenses | **13,276** | – |
| Pension scheme contributions | **65** | 35 |
| Total compensation paid to key management personnel | **16,722** | 1,142 |

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.

**26. EVENT AFTER THE REPORTING PERIOD**

The Group did not have any significant events taking place subsequent to 30 June 2012.

**27. APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

These unaudited interim condensed consolidated financial statements of the Group for the Reporting Period were approved and authorised for issue in accordance with a resolution of the Board on 20 August 2012.

## MANAGEMENT DISCUSSION AND ANALYSIS

## MARKET OVERVIEW

The global economy remained volatile during the Reporting Period given the uncertainty in its outlook. Concerns over the solution to the European sovereign debt crisis and fears of further debt contagion weighed heavily on investor and consumer sentiment. Signs of recovery in the United States economy at the start of the year were losing steam by the second quarter, compounded by the persistence of high unemployment and fragility in the housing market. Lower demand from outside markets reduced levels of export related activity in the PRC. At the same time, the PRC government continued to tighten its macro-control measures to slow down the inflation rate at the beginning of the year, which gradually decelerated the rapid expansion of the Chinese economy. The complicated and ever-changing economic environment of the Reporting Period posed huge challenge to China's economic growth. According to the National Bureau of Statistics of China ("NBSC"), the growth rate of China's nominal GDP for the Reporting Period has slowed down to 7.8% over the same period in 2011, being the lowest growth rate since the global financial crisis.

As impacted by the macro economy, the growth of consumer market of the PRC is decelerated moderately in the Reporting Period. According to the NBSC, the total retail sales of consumer products rose 14.4% to RMB9.82 trillion for the Reporting Period, representing a slight fall of 2.4% from 16.8% recorded for the same period of last year. Among which, urban and rural areas recorded retail sales of consumer products of RMB8.51 trillion and RMB1.31 trillion, representing an increase by 14.3% and 14.5% compared to the same period of last year, respectively (six months ended 30 June 2011: growth rate of urban areas of 16.9% and rural areas of 16.2%). In particular, the growth rate of retail sales of apparel products by the top 100 key and large-scale retailers had slowed down significantly from 21.81% for the first half of 2011 to 9.82% for the Reporting Period, according to the National Commercial Information Center of China (CNCIC) (中華全國商業信息中心).

Notwithstanding the challenges posed by the mixed economic environment of the Reporting Period, we are pleased to announce that China Outfitters Holdings Limited delivered a sound performance for the Reporting Period. Profit attributable to owners of the parent reached RMB220.2 million, representing an increase of 23.6%% compared to RMB178.2 million for the corresponding period of last year.

## FINANCIAL REVIEW

### Revenue

Our revenue increased by RMB118.8 million, or approximately 21.9%, from RMB542.1 million for the six months ended 30 June 2011 to RMB660.9 million for the Reporting Period. Such increase in revenue was mainly attributable to the increase in the number of retail points. The number of our retail points increased to 1,201 as at 30 June 2012, in particular the number of our retail points operated by third-party retailers increased to 700 due to our effort to continue to expand our retail network. In addition, the increase in sales was also attributable to our successful pricing strategy by increasing the retail price and optimisation of product mix.

*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:

| | Six months ended 30 June | | | |
|---|---|---|---|---|
| | **2012** | | 2011 | |
| | **Revenue RMB million** | **% of total revenue** | Revenue RMB million | % of total revenue |
| Sales at self-operated retail points | **396.2** | **60%** | 330.2 | 61% |
| Sales to third-party retailers | **264.7** | **40%** | 211.9 | 39% |
| Total | **660.9** | **100%** | 542.1 | 100% |

*By Brand*

| | Six months ended 30 June | | | |
|---|---|---|---|---|
| | **2012** | | 2011 | |
| | **Revenue RMB million** | **% of total revenue** | Revenue RMB million | % of total revenue |
| Licensed brands | **621.6** | **94%** | 509.2 | 94% |
| Self-owned brands | **39.3** | **6%** | 32.9 | 6% |
| Total | **660.9** | **100%** | 542.1 | 100% |

## FINANCIAL REVIEW *(continued)*

### Revenue *(continued)*

*By Brand (continued)*

The revenue contributed from self-owned brands accounted for approximately 6% of the total revenue for the both periods indicated. It was mainly driven by an increase in sales from "London Fog" branded products which benefited from increasing recognition of our "London Fog" brand by the targeted consumers who are in pursuit of a higher quality of life and personal image and offset by a decrease in sales from "Doright" branded products.

### Cost of sales

Our cost of sales increased by RMB22.1 million, or approximately 16.6%, from RMB132.9 million in the six months ended 30 June 2011 to RMB155.0 million for the Reporting Period, which was in line with the growth of our sales.

### Gross profit and gross profit margin

Our gross profit increased by RMB96.8 million, or approximately 23.7%, from RMB409.2 million in the six months ended 30 June 2011 to RMB506.0 million for the Reporting Period. The increase in our overall gross profit margin from 75.5% in the first half of 2011 to 76.6% for the Reporting Period was mainly attributable to our successful pricing strategy by increasing the retail price and optimisation of product mix.

### Other income and gains

Our other income and gains increased by RMB4.3 million, or approximately 23.8%, from RMB18.1 million in the six months ended 30 June 2011 to RMB22.4 million for the Reporting Period, primarily due to the receipt of subsidy income of RMB19.8 million from the local governments.

### Selling and distribution costs

Our selling and distribution costs increased by RMB52.4 million, or approximately 33.5%, from RMB156.4 million in the six months ended 30 June 2011 to RMB208.8 million for the Reporting Period primarily due to: (i) an increase in concession fees for occupying concession counters within department stores and department store charges as more in-store marketing and promotional activities were organised by department stores during the period to boost sales; (ii) an increase in marketing staff costs due to the continuous expansion in our self-operated retail points; (iii) an increase in royalty fees for the use of the licensed brands; and (iv) an increase in promotional costs for the marketing of "JEEP" – lady and "London Fog" branded products.

## FINANCIAL REVIEW *(continued)*

### Administrative expenses

Our administrative expenses increased by RMB21.2 million, or approximately 159.4%, from RMB13.3 million in the six months ended 30 June 2011 to RMB34.5 million for the Reporting Period, primarily due to (i) the adoption of a Pre-IPO Share Option Scheme on 25 November 2011 resulted in an increase in share option expense of RMB16.2 million for the Reporting Period (six months ended 30 June 2011: Nil); and (ii) the Directors entered into the service contracts with our Company in June 2011 and therefore the Directors' emoluments increased to RMB2.8 million for the Reporting Period (six months ended 30 June 2011: RMB0.5 million).

### Other expenses

Our other expenses decreased from RMB14.2 million in the six months ended 30 June 2011 to RMB3.0 million for the Reporting Period were mainly due to the decrease in the one-off listing expenses of RMB14.1 million incurred in the six months ended 30 June 2011.

### Finance income

Our finance income increased to RMB23.1 million for the Reporting Period as compared to RMB4.9 million in the six months ended 30 June 2011 primarily because we continued to maintain a relatively strong cash position throughout the Reporting Period as a result of the increase in cash inflows from operating activities and the proceeds received from the IPO.

### Profit before tax

As a result of the foregoing factors, our profit before tax increased by RMB56.9 million, or approximately 22.9%, from RMB248.3 million in the six months ended 30 June 2011 to RMB305.2 million for the Reporting Period.

### Income tax expense

Our income tax increased by RMB15.6 million, or approximately 22.5%, from RMB69.3 million in the six months ended 30 June 2011 to RMB84.9 million for the Reporting Period primarily due to the (i) an increase of profit before tax generated by our operating entities in the PRC; and (ii) a provision of withholding tax on distributable profits of the PRC subsidiaries. The effective income tax rate for the Reporting Period was 27.8% (six months ended 30 June 2011: 27.9%)

## FINANCIAL REVIEW *(continued)*

### Profit for the period

Our profit for the Reporting Period increased by RMB41.1 million, or approximately 22.9%, from RMB179.1 million in the six months ended 30 June 2011 to RMB220.2 million for the Reporting Period. In addition, the increase in net profit margin from 33.0% in the six months ended 30 June 2011 to 33.3% for the Reporting Period was mainly due to a mixed effect of:

(i) Increase in gross profit margin from 75.5% to 76.6% led by the increase in our retail price; increase in percentage of finance income over total revenue from 0.9% to 3.5% due to our strong cash position and decrease in percentage of other expense over total revenue from 2.6% to 0.5%; partially offset by

(ii) Increase in percentage of selling and distribution costs over total revenue from 28.9% to 31.6% due to the increase in concession fees and marketing staff costs and increase in percentage of administrative expenses over total revenue from 2.5% to 5.2% due to the increase in share option expense and staff costs as detailed above.

### Profit attributable to owners of the parent

As a result of the foregoing, profit attributable to owners of the parent increased by RMB42.0 million, or approximately 23.6%, from RMB178.2 million in the six months ended 30 June 2011 to RMB220.2 million for the Reporting Period.

### Working capital management

| | 30 June 2012 | 31 December 2011 |
|---|---|---|
| Inventory turnover days | **399** | 336 |
| Trade and bills receivables turnover days | **27** | 29 |
| Trade and bills payables turnover days | **33** | 35 |

The increase in inventory turnover days by 63 days was primarily due to the following reasons:

- The sales of 2011 Fall/Winter and 2012 Spring/Summer clothes tend to be slow during the Relevant Period due to the continuous slow-down of retail market since the last quarter of 2011, which resulted in a relatively higher balance of inventories within 1 year;

## FINANCIAL REVIEW *(continued)*

### Working capital management *(continued)*

- The rapid expansion of our sales network since the last quarter of 2011 required us to maintain a higher level of inventory to ensure sufficient stock supply to our expanding sales network and we keep certain adequate level of stock at each self-operated retail point; and

- The value of our raw materials and work-in-progress increased from RMB33.1 million as at 31 December 2011 to RMB48.2 million as at 30 June 2012 primarily due to the higher unit cost of raw materials for production of 2012 Fall/Winter product collection.

Trade and bills payables and trade and bills receivables turnover days were comparable for the periods indicated.

### Financial resources and liquidity

As at 30 June 2012, we had an aggregate cash and cash equivalents and investment deposits of approximately RMB1,283.7 million. Our Group did not have any bank borrowings or other financing facilities during the Reporting Period.

As at 30 June 2012, we had net current assets of approximately RMB1,437.6 million, as compared to RMB1,374.9 million as at 31 December 2011. As at 30 June 2012, the current ratio, being current assets divided by current liabilities, of our Group was 5.0, compared to 4.4 as at 31 December 2011.

## FINANCIAL REVIEW *(continued)*

### Financial resources and liquidity *(continued)*

Our Group's gearing ratio is calculated as 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 30 June 2012 and 31 December 2011 were as follows:

| | **As at 30 June 2012 RMB'000** | As at 31 December 2011 RMB'000 |
|---|---|---|
| Trade and bills payables | **29,673** | 26,426 |
| Other payables | **55,434** | 55,024 |
| Less: Cash and cash equivalents | **(526,377)** | (1,035,079) |
| Pledged bank deposits | **–** | (3,952) |
| Net debt/(assets) | **(441,270)** | (957,581) |
| Capital – equity attributable to owners of the parent | **1,723,219** | 1,656,058 |
| Capital and net debt | **1,281,949** | 698,477 |
| Gearing ratio | **N/A** | N/A |

For the Reporting Period, the net cash flows generated from operating activities amounted to approximately RMB159.5 million, as compared to approximately RMB127.7 million in the same period of 2011. The fluctuation was in line with our Group's operational performance.

For the Reporting Period, the net cash flows used in investing activities amounted to approximately RMB770.5 million, as compared to net cash from investing activities amounted to approximately RMB1.8 million in the same period of 2011. The fluctuation was primarily due to the increase in time deposits with original maturity of three months or more and investment deposits.

For the Reporting Period, the net cash flows used in financing activities amounted to approximately RMB171.0 million, as compared to approximately RMB22.1 million in the same period of 2011. The fluctuation was mainly due to the payment of the final dividend for the year ended 31 December 2011 on ordinary shares, with amount of approximately RMB204.1 million, offset by cash inflow from partial exercise of over-allotment option of RMB33.1 million.

## FINANCIAL REVIEW *(continued)*

### Pledge of assets

As at 30 June 2012, no assets of our Group were pledged as a security for bank borrowings or any other financing facilities. (31 December 2011: RMB4.0 million for issuance of bank acceptance notes)

### Foreign exchange management

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

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

### Contingent liabilities

As at 30 June 2012, we did not have any material contingent liabilities.

### Use of proceeds from 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$768.3 million (equivalent to approximately RMB625.8 million), including the net proceeds from the partial exercise of the over-allotment option on 30 December 2011.

As at 30 June 2012, the unused proceeds were deposited in licensed banks in the PRC and Hong Kong.

*Use of fund raised*

| | Percentage to total amount | Net proceeds (HK$ million) | Utilised amount (as at 30 June 2012) (HK$ million) | Unutilised amount (as at 30 June 2012) (HK$ million) |
|---|---|---|---|---|
| Licensing or acquisition of additional recognised international brands | 47% | 360.9 | – | 360.9 |
| Expansion and enhancement of existing logistical system | 24% | 181.9 | – | 181.9 |
| Settlement of shareholder's loan | 20% | 152.8 | 147.1 | 5.7 |
| General working capital | 9% | 72.7 | – | 72.7 |
| | 100% | 768.3 | 147.1 | 621.2 |

## OPERATIONS REVIEW

### Retail and distribution network

We believe that our extensive and well-managed sales network has assisted us in building a unified image for each of our brands. We have strategically used a combination of self-operated retail points as well as retail points operated by third-party retailers to increase our market penetration. For the Reporting Period, we continued to adopt a strategy of establishing a meaningful presence in major cities in the PRC such as Beijing, Shanghai, Chengdu, Guangzhou, Shenzhen and etc., which we consider as our core markets by opening our self-operated retail points and engaging third-party retailers which directly operate stores or concession counters in department stores or shopping malls in cities where we do not operate retail points to expand our sales network. 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 30 June 2012 and 31 December 2011:

| | As at 30 June 2012 | | | As at 31 December 2011 | | |
|---|---|---|---|---|---|---|
| Brand | Self-operated retail points | Retail points operated by third-party retailers | Total retail points | Self-operated retail points | Retail points operated by third-party retailers | Total retail points |
| "JEEP" | | | | | | |
| – menswear | 182 | 432 | 614 | 171 | 382 | 553 |
| – lady | 33 | 27 | 60 | 20 | 13 | 33 |
| "Santa Barbara Polo & Racquet Club" ("SBPRC") | 165 | 181 | 346 | 161 | 171 | 332 |
| "London Fog" | 68 | 60 | 128 | 60 | 61 | 121 |
| Others | 53 | – | 53 | 63 | – | 63 |
| Total | 501 | 700 | 1,201 | 475 | 627 | 1,102 |

### *Self-operated retail points*

- Self-operated concession counters: As at 30 June 2012 and 31 December 2011, we had a network of 481 and 455, respectively, which were directly operated by us. All of our self-operated concession counters are located within mainstream department stores, including Parkson (百盛), Golden Eagle (金鷹), MOI (茂業), Intime (银泰), Wangfujing (王府井).

## OPERATIONS REVIEW *(continued)*

**Retail and distribution network** *(continued)*

***Self-operated retail points*** *(continued)*

- Self-operated stores: As at 30 June 2012 and 31 December 2011, we had a network of 20 and 20, respectively, most of which were located in shopping malls within major cities in the PRC to ensure a steady flow of consumers as well as to enhance our sales and brand awareness.

***Retail points operated by third-party retailers***

For the Reporting Period, we engaged 13, 11 and 5 new third-party retailers for our "JEEP", "SBPRC" and "London Fog" brands, respectively. We have also increased visits to our third-party retailers and provided formal and systematic trainings to them with an aim at implementation of a set of standard operating procedures for each of their major store operating functions, including cashier, marketing concession staff and store supervisor.

**Building brand equity**

We believe that one of the most valuable assets of our Group is its brands and we place great emphasis on the long-term development of our brands.

- We continued to enhance the layout of our 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 our 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, "London Fog" and "SBPRC";

- In line with our strategy of diversifying its product portfolio, we entered into a joint venture agreement with Perry Ellis International Group Holdings Limited and Perry Ellis International, Inc. in April 2012 relating to the establishment of a joint venture company for the purpose of engaging in the promotion, manufacturing, sale and marketing of mid-to-high men's and women's apparel products and accessories under the "Manhattan" trademarks in the PRC;

- The city of London is the host of the 30th Olympic Games. We have tactically using the London theme and adding symbols and elements of the city into our products in promotion of our "London Fog" brand during the Reporting Period.

## OPERATIONS REVIEW *(continued)*

### Design and product development

We believe that product design has been one of the keys to our growth and success. We differentiate our products from those of our competitors by designing men's smart casual wear, outdoor casual wear and leisure wear with image, style and cutting that tailored for the taste of the PRC consumers and consistent with the unique image and philosophy carried by each brand. In view of this, we continuously design and develop fashionable and innovative apparel products aiming at enhancing our brand equity and providing us with a better pricing capability.

Our in-house design team is led by our chief designer, who has design experience in the industry for more than ten years and the majority of our designers have an average of more than three years of working experience in the related fields.

### Production and supply chain

We have strategically used a combination of self-production, subcontracting services and outsourcing production, with an aim to optimise product quality, cost-effectiveness and production flexibility. During the Reporting Period, we continued to improve our enterprise resource planning ("ERP") system to improve efficiency of our warehousing operations to ensure we are able to deliver the best products to our consumers in a cost-efficient manner. We did not increase our production capacity during the Reporting Period and had no plan for expansion up to the date of this report.

### Employee information

As at 30 June 2012, our Group had approximately 2,304 full-time employees. Staff costs including Directors' remuneration, totalled RMB53.3 million during the Reporting Period.

Our subsidiaries in the PRC are required to participate in a central pension scheme operated by the local municipal government whilst our employees in Hong Kong are covered by retirement benefit schemes adopted under the Mandatory Provident Fund Schemes Ordinance.

Our Company also operates a Share Option Scheme and a Pre-IPO Share Option Scheme for the purpose of providing incentives and rewards to eligible participants for their contribution to, and continuing efforts to promote the interests of, our Group. A total of 205,552,000 shares under Pre-IPO Share Option Scheme were granted on 9 December 2011 to 20 participants, including 8 directors, at a consideration of HK$1 paid by each participant. During the Reporting Period, one of the eligible participants, Mr. Mak Yue Ping resigned from the office. Pursuant to the terms of the Pre-IPO Share Option Scheme, 6,328,000 shares held by Mr. Mak Yue Ping forfeited automatically and not be exercisable. 199,224,000 options were outstanding as at 30 June 2012 and the date of the report accordingly.

## OPERATIONS REVIEW *(continued)*

### Prospects

Although the overall economy in China is developing steadily, the national economic growth has decelerated and faces downward pressure from a number of factors such as the gloomy global economic outlook. The Directors expect a relatively stronger economic growth in the PRC for the second half of 2012, as the recent loosening of monetary policy in the PRC is expected to add further impetus to the economy, which capital intensive investment set to benefit the most. This positive effect may be reflected in the consumption market at a later stage.

Management will continue to focus on the following key objectives for 2012:

- We will carry through strategic plan of expanding and upgrading the retail network and explore more sales channels and locations, including outlet stores, stores in airports and high-speed railway stations, shopping malls and internet sales platform, aiming to diversify our sales channels and increase our revenue and profitability;

- We will continue to improve our same-stores-sales growth by maintaining and enhancing pricing discipline, continuously enhancing the layout of our retail points and the way to display our products and actively participating joint promotional activities organised by department stores and shopping malls;

- We will continue to improve and strengthen the development of "London Fog" and "JEEP" – lady. We will increase advertising and promotion in targeted local promotional campaigns to build brand equity and support the expansion of retail networks;

- We aim to launch the first batch of Manhattan men's products by the end of 2012; and

- We will continue to enhance sales forces for reducing our level of aged inventories, optimisation of our production plan for 2012 Fall/Winter product collections and maintain stringent cost controls over raw materials and subcontracting costs with an aim at reducing our inventory turnover days. We will also work with other third party consulting firms to improve our overall inventory management.

## INTERIM DIVIDEND

The Board does not recommend to declare an interim dividend for the Reporting Period (six months ended 30 June 2011: Nil).

## OTHER INFORMATION

## DISCLOSURE OF INTERESTS

**Directors' and chief executives' interests and short positions in shares and underlying shares and debentures**

As at 30 June 2012, the interests and short positions of the Directors and chief executives of the Company in the shares, 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 ("Model Code") contained in Appendix 10 to the Listing Rules, 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 30 June 2012, none of the Directors and chief executives of the Company 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.

## DISCLOSURE OF INTERESTS *(continued)*

### Substantial shareholders' and other persons' interests and short positions in shares and underlying shares

At 30 June 2012, the following interests and short positions of 5% or more of the issued share capital and share options of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

*Long positions:*

| Name | Notes | Capacity and nature of interest | Number of ordinary shares held | Percentage of the Company's issued share capital |
|---|---|---|---|---|
| China Enterprise Capital Limited | (1) | Corporate interest | 1,868,100,000(L) | 54.11(L) |
| CEC Menswear Limited | (1) | Corporate interest | 1,868,100,000(L) | 54.11(L) |
| Mr. ZHANG Bruce Yongfu | (1) | Corporate interest | 1,868,100,000(L) | 54.11(L) |
| Vinglory Holdings Limited | (1) | Corporate interest | 1,868,100,000(L) | 54.11(L) |
| CEC Outfitters Limited | (1) | Beneficial owner | 1,868,100,000(L) | 54.11(L) |
| Managecorp Limited | (2) | Trustee | 506,100,000(L) | 14.66(L) |
| Ms. LAM Lai Ming | (2) | Other | 506,100,000(L) | 14.66(L) |
| Mr. LI Gabriel | (2) | Other | 506,100,000(L) | 14.66(L) |
| YM Investment Limited | (3) | Corporate interest | 506,100,000(L) | 14.66(L) |
| Orchid Asia IV Investment, Limited | (3) | Corporate interest | 495,990,000(L) | 14.37(L) |
| Orchid Asia IV Group, Limited | (3) | Corporate interest | 495,990,000(L) | 14.37(L) |
| Orchid Asia IV Group Management, Limited | (3) | Corporate interest | 495,990,000(L) | 14.37(L) |
| OAIV Holdings, L.P. | (3) | Corporate interest | 495,990,000(L) | 14.37(L) |
| Orchid Asia IV, L.P. | (3) | Beneficial owner | 495,990,000(L) | 14.37(L) |
| Mr. KRAVIS Henry Roberts | (4) | Corporate interest | 285,366,000(L) | 8.27(L) |
| Mr. ROBERTS George R. | (4) | Corporate interest | 285,366,000(L) | 8.27(L) |
| KKR Management LLC | (4) | Corporate interest | 285,366,000(L) | 8.27(L) |
| KKR & Co. L.P. | (4) | Corporate interest | 285,366,000(L) | 8.27(L) |
| KKR Group Limited | (4) | Corporate interest | 285,366,000(L) | 8.27(L) |
| KKR Fund Holdings GP Limited | (4) | Corporate interest | 285,366,000(L) | 8.27(L) |
| KKR Group Holdings GP Limited | (4) | Corporate interest | 285,366,000(L) | 8.27(L) |
| KKR Fund Holdings L.P. | (4) | Corporate interest | 285,366,000(L) | 8.27(L) |
| KKR China Growth Limited | (4) | Corporate interest | 285,366,000(L) | 8.27(L) |
| KKR SP Limited | (4) | Corporate interest | 285,366,000(L) | 8.27(L) |
| KKR Associates China Growth L.P. | (4) | Corporate interest | 285,366,000(L) | 8.27(L) |
| KKR China Growth Fund L.P. | (4) | Corporate interest | 285,366,000(L) | 8.27(L) |
| KKR China Apparel Limited | (4) | Beneficial owner | 285,366,000(L) | 8.27(L) |

(L) Long position

## DISCLOSURE OF INTERESTS *(continued)*

### Substantial shareholders' and other persons' interests and short positions in shares and underlying shares *(continued)*

*Long positions: (continued)*

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 Vingloary 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 interest 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.

## DISCLOSURE OF INTERESTS *(continued)*

### Substantial shareholders' and other persons' interests and short positions in shares and underlying shares *(continued)*

*Long positions: (continued)*

Notes: (continued)

(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 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 approximately 32% and 3% 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.

Save as disclosed above, as at 30 June 2012, no person, other than the Directors and chief executives of the Company, whose interests are set out in the section "Directors' and chief executive's interests and short positions in share 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.

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

Apart from the shares issued on 5 January 2012 as a result of the partial exercise of the over-allotment option, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the Reporting Period.

## SHARE OPTION SCHEME

The Company operates a Share Option Scheme and a Pre-IPO Share Option Scheme for the purpose of providing incentives and rewards to eligible participants for their contribution to, and continuing efforts to promote the interests of, the Group. The Share Option Scheme was conditionally approved by the written resolutions of the shareholders passed on 25 November 2011. No share options under the Share Option Scheme were granted, exercised or cancelled by the Company during the Reporting Period. A total of 205,552,000 shares under Pre-IPO Share Option Scheme were granted on 9 December 2011 to 20 participants, including 8 directors, 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. Details of the both schemes are set out in the published annual report of the Company for the year ended 31 December 2011.

### Pre-IPO Share Option Scheme

Details of movements of the options during the Reporting Period are set out below:

| | Number of options |
|---|---|
| At 1 January 2012 | 205,552,000 |
| Forfeited during the period | (6,328,000) |
| At 30 June 2012 | 199,224,000 |

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

| | Number of grantees | |
|---|---|---|
| Category of grantees | Granted as at 9 December 2011 | Valid as at 30 June 2012 |
| Executive directors | 4 | 4 |
| Non-executive director | 1 | 1 |
| Independent non-executive directors | 3 | 3 |
| | 8 | 8 |

## SHARE OPTION SCHEME *(continued)*

### Pre-IPO Share Option Scheme *(continued)*

| | 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 | **Valid as at 30 June 2012** |
| 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** |

## CORPORATE GOVERNANCE

### Corporate governance practices

The Company is committed to maintaining and upholding guidelines and procedures for stringent corporate governance. In respect of the Reporting Period, all the provisions set out in the Corporate Governance Code contained in Appendix 14 of the Listing Rules (the "CG Code") were met by the Company. The Company will periodically review its corporate governance practices to ensure its continuous compliance with the CG Code.

### Compliance with the Model Code by Directors

The Company has adopted the Model Code as its code of conduct regarding securities transactions by the Directors. Having made specific enquiry with all Directors, the Company has confirmed with all Directors that they have complied with the required standard set out in the Model Code and its code of conduct regarding any Directors' securities transactions for the period from 1 January 2012 to 20 August 2012 (date of publication of the report).

## CHANGE OF DIRECTORS' INFORMATION

Pursuant to Rule 13.51(B) of the Listing Rules, the changes in information of Directors since the date of the 2011 annual report of the Company are set out below:

| Name of Director | Details of Change |
|---|---|
| Huang Xiaoyun | Appointed on 14 May 2012 as Chief Financial Officer of the Company |
| Yeung Chi Wai | Appointed on 29 June 2012 as a director of Accounting Development Foundation Limited |

## REVIEW OF INTERIM RESULTS

The Audit Committee has discussed with management internal controls and financial reporting matters related to the preparation of the interim condensed consolidated financial statements for the Reporting Period. It has also reviewed the said financial statements in conjunction with the Company's external auditors.

Ernst & Young, the external auditors of the Group have reviewed but not audited the Group's interim results for the Reporting Period.

## APPRECIATION

I would like to take this opportunity to thank our colleagues on the Board for their contribution and support throughout the Reporting Period, and our management and staff members of the Group for their hard work and loyal service.

I would also like to express our sincere appreciation to our shareholders, customers and suppliers as well as our business partners for their continuing support.

By Order of the Board

**LO Peter**
*Chairman*
Hong Kong

20 August 2012