You should read the following discussion and analysis in conjunction with our combined financial information and notes thereto set forth in the Accountants' Report included as Appendix I and our selected historical combined financial information and operating data included elsewhere in this prospectus. Our combined financial information has been prepared in accordance with the HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The following discussion contains forward-looking statements that involve risks and uncertainties. Our future results could differ materially from those discussed in such forward-looking statements as a result of various factors, including those set forth under the section headed "Risk Factors" and elsewhere in this prospectus.

Our financial year begins from 1 January and ends on 31 December. All references to "FY2010", "FY2011" and "FY2012" mean the financial years ended 31 December 2010, 2011 and 2012, respectively.

OVERVIEW

We are an established distributor and retailer of lifestyle comfort footwear products of international brands. Our revenue derives from (i) retail through our Retail Outlets under several trade names, namely S.Culture, shoe mart, SCOOPS and individual licensed brands, located in Hong Kong, Taiwan and Macau; and (ii) sales to wholesale customers who are mainly footwear retail chain stores and department stores in Hong Kong and Taiwan. During the Track Record Period, we offered footwear products of Clarks, Josef Seibel, The Flexx, Yokono and other brands.

We have extensive sales channels through our self-operated Retail Outlets network in Hong Kong, Taiwan and Macau. As at the Latest Practicable Date, we had a total of 98 Retail Outlets, comprising 51 Retail Outlets in Hong Kong, 45 Retail Outlets in Taiwan and two Retail Outlets in Macau. Our Retail Outlets are strategically located in prime locations, department stores and shopping malls to reach out to a wider customer base.

Our business has grown rapidly during the Track Record Period. Our revenue increased by approximately HK$106.6 million or 29.1%, from approximately HK$365.8 million in FY2010 to approximately HK$472.4 million in FY2011, and further increased by approximately HK$32.9 million or 7.0%, to approximately HK$505.3 million in FY2012, representing a CAGR of approximately 17.5%. Correspondingly, our profit for the year increased by approximately HK$13.4 million, or 74.0%, from approximately HK$18.1 million in FY2010 to approximately HK$31.5 million in FY2011, but decreased by approximately HK$6.4 million, or 20.3%, to approximately HK$25.1 million in FY 2012, representing a CAGR of approximately 17.8%.

BASIS OF PREPARATION

Pursuant to the Reorganisation, as more fully described in the section headed ''History, Reorganisation and Group Structure'' of this prospectus and in Appendix V to this prospectus, our Company became the holding company of the companies now comprising our Group. Our financial information presents our results of operations, financial position and cash flows of the companies now comprising our Group and has been prepared as if the current group structure had been in existence at the beginning of the Track Record Period, or since the companies' respective dates of incorporation or establishment, where there is a shorter period.

PRINCIPAL FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Reliance on our largest supplier

C&J Clark was our largest supplier during the Track Record Period. For the three years ended 31 December 2010, 2011 and 2012, our purchases of the footwear products under the Clarks brand accounted for approximately 81.8%, 82.9% and 71.3% of our total purchases, respectively; our revenue derived from the sale of the Clarks branded footwear products accounted for approximately 80.9%, 84.8%, and 80.0% of our total revenue for the respective periods. Therefore, our financial condition, results of operations and business prospects are directly affected by our relationship with C&J Clark.

Our revenue derived from the distribution of Clarks branded footwear products is determined by the quantity of products we purchase from C&J Clark and the price at which we sell those footwear products. Our gross margin and operating profit are substantially affected by the price at which we purchase the Clarks branded footwear products and the price we sell the Clarks branded footwear products to our retail and wholesale customers.

As at Latest Practicable Date, we had entered a distributorship agreement and an international franchise agreement with C&J Clark which granted us exclusive distribution rights in certain authorised territories, namely Hong Kong, Taiwan and Macau, and rights to open Retail Outlets under its brands, respectively in August 2012 for a term of five years and will expire on 31 December 2017. As a result, the quantity of the Clarks branded footwear products that we purchase from C&J Clark is subject to private and commercial negotiation between C&J Clark and us. Any decline or interruption in supply from C&J Clark will materially and adversely affect our financial condition, results of operations and business prospects.

For over 30 years, we have maintained strong and solid relationship with C&J Clark and have been able to renew our supply agreements with C&J Clark after they expire uninterruptedly. Over the years, we have successfully transferred such price fluctuations to our customers in order to maximise our nominal sales and hence our gross profit.

Growth of tourism and the retail market in Hong Kong and Taiwan

Our results of operation and financial condition were affected by the growth of tourism and the retail market in Hong Kong and Taiwan as our revenue was mainly derived from Hong Kong and Taiwan during the Track Record Period. Our Directors believe that the growth in Mainland Chinese tourist spending and increasing retail sales have been the drivers of the Hong Kong and Taiwan footwear market where our business mainly operates in. Accordingly, our Group's results are affected by the number of PRC tourists visiting Hong Kong. According to the Hong Kong Tourism Board, Hong Kong received a record-high of 42 million visitors from around the world in 2011, an increase of 16.4% over 2010. In addition, Taiwan opened its doors to independent Mainland Chinese tourists in June 2011. This move came after the initial decision to allow group tourists from the PRC to visit Taiwan in 2008 and was made in a bid to stimulate Taiwan's economy. Our Directors believe that spending by tourists from the PRC and the development of tourism in Hong Kong and Taiwan, which is expected to continue to thrive and have a significant impact on our Group's performance.

Expansion of our retail network

We generate over 80.0% of our revenue from sale of footwear products at our Retail Outlets. The sale of footwear products are affected by the number of our Retail Outlets in operation. The following table sets forth the number of our Retail Outlets in operation, by geographical region, as at the dates indicated.

	As at 31 December									As at		
	2010			2011			2012			the Latest Practicable Date		
	Number of concessions	Number of self-rented shops	Total	Number of concessions	Number of self-rented shops	Total	Number of concessions	Number of self-rented shops	Total	Number of concessions	Number of self-rented shops	Total
Number of Retail Outlets:												
Hong Kong	15	27	42	17	29	46	21	33	54	21	30	51
Taiwan	31	6	37	32	8	40	37	8	45	37	8	45
Macau	0	3	3	0	3	3	0	3	3	0	2	2
Total	46	36	82	49	40	89	58	44	102	58	40	98

Our Retail Outlets grew significantly during the Track Record Period. As at 31 December 2010, 2011 and 2012, we had 82, 89 and 102 Retail Outlets, respectively, representing a CAGR of approximately 11.5% from 31 December 2010 to 31 December 2012. Our revenue generated from our Retail Outlets were approximately HK$305.1 million, approximately HK$403.6 million and approximately HK$442.0 million for the years ended 31 December 2010, 2011 and 2012, respectively, representing approximately 83.4%, 85.4% and 87.5% of our total revenue, respectively. As part of our business strategy, we plan to continue expanding our sales network by opening additional Retail Outlets. We intend to use approximately 42.8% of the net proceeds we will receive from the Global Offering to continually increase the number of Retail Outlets. Our future growth will depend on our ability to open additional Retail Outlets, failure to do so may result in limited growth and reduced profitability.

Rental expenses and concession fees

Our Group has an extensive network of Retail Outlets in Hong Kong and Taiwan. As at 31 December 2012, we had a total of 102 Retail Outlets, comprising 54 in Hong Kong, 45 in Taiwan, and three in Macau. Our leases for self-rented shops generally require (i) a fixed rent payment depending on shop sizes and locations; or (ii) a turnover based rent payments. Our concession agreements for concessions require concession fee to be the higher amount between a contingent rent as a percentage of revenue and a specified fixed rent, depending on the specific terms of the relevant concession agreements. The rental rate may be subject to a rental adjustment and/or customised contingent terms. We have no preference as to entering into leases with fixed or contingent rent.

For the self-rented shops in Hong Kong, Taiwan and Macau, the terms of our leases generally range from one to five years. For the concessions in Hong Kong and Taiwan, the duration of the concession agreements entered into between our Group and the relevant department stores or shopping malls generally range from six months to 24 months subject to renewal or extension upon expiration. Generally, the concession agreements in Hong Kong and Taiwan may be terminated by the operators of the department stores or shopping malls if our Group is in breach of terms of the agreement.

We considered the followings for opening and closing of Retail Outlets: (i) when we consider opening a new Retail Outlet, based on our management's experience in operations, we would review on ease of access for our customer, population density, potential growth of customer and vehicle traffic and proximity and performance of competitors nearby of the target location in that area; and (ii) weights the rentals against the sales projection of the next three years of a particular Retail Outlet.

The following table sets out our rental expenses in respect of self-rented shops and concessions, and rental expenses related to our revenue generated from our Retail Outlets for each of the three years ended 31 December 2012:

	For the year ended 31 December								
	2010			2011			2012		
	Number of Retail Outlets	*(HK$'000)*	*(% of Retail Outlets revenue)*	*Number of Retail Outlets*	*(HK$'000)*	*(% of Retail Outlets revenue)*	*Number of Retail Outlets*	*(HK$'000)*	*(% of Retail Outlets revenue)*
Self-rented shops	36	63,473	20.8	40	78,001	19.3	44	108,438	24.5
Concessions	46	28,372	9.3	49	42,982	10.7	58	49,921	11.3
Total	82	91,845	30.1	89	120,983	30.0	102	158,359	35.8

A significant portion of our Group's expenses consists of rental expenses including concession fees (excluding warehouses) which amounted to approximately HK$91.8 million, HK$121.0 million and HK$158.4 million, representing approximately 25.1%, 30.0%, and 35.8% of our Retail Outlets revenue for each of the years ended 31 December 2010, 2011 and 2012, respectively.

Our rental expenses increased from approximately HK$91.8 million for the year ended 31 December 2010 to approximately HK$158.4 million for the year ended 31 December 2012, representing a CAGR of approximately 31.3%. The increase was mainly attributable to (i) increase in rental fees on Retail Outlets; and (ii) addition of 20 Retail Outlets opened in high population density locations, of which some has higher rental rate per sq.ft..

Our rental expenses in respect of self-rented shops increased from approximately HK$63.5 million for the year ended 31 December 2010 to approximately HK$108.4 million for the year ended 31 December 2012, representing a CAGR of approximately 30.7%. The increase was mainly attributable to (i) increase in rental fees on self-rented shops; and (ii) addition of 8 self-rented shops opened in high population density locations, of which some has higher rental rate per sq.ft. for the expansion of our retail network. Our rental expenses in respect of self-rented shops also included contingent rent, which amounted to approximately HK$3.1 million, HK$2.8 million and HK$2.1 million for the years ended 31 December 2010, 2011 and 2012, respectively. The decrease in contingent rent payments in respect of self-rented shops during the Track Record Period was due to our Group had closed and did not renew some of the Retail Outlets that required additional contingent rent payments as a result of our management closely monitored our Group's rental expenses regarding the expansion via the self-rented shops. Our average monthly rental expenses per sq. ft. in respect to self-rented shops in Hong Kong increased from approximately HK$184.1 for the year ended 31 December 2010 to approximately HK$259.0 for the year ended 31 December 2012, representing a CAGR of approximately 18.6%.

Our rental expenses in respect of concessions increased from approximately HK$28.4 million for the year ended 31 December 2010 to approximately HK$49.9 million for the year ended 31 December 2012, representing a CAGR of approximately 32.6%. The increase was mainly attributable to (i) increase in sales generated in concessions as the contingent rent was based on a percentage of revenue; and (ii) addition of 8 concessions opened in high population density department stores and shopping mall for the expansion of our retail network. Our rental expenses in respect of concessions also included contingent rent payments, which amounted to approximately HK$22.7 million, HK$39.3 million and HK$41.1 million for the years ended 31 December 2010, 2011 and 2012, respectively. The increase was mainly due to the increase in sales generated in concessions as the contingent rent was based on a percentage of revenue, which the CAGR of our contingent rent was consistent with the CAGR of our revenue generated from concessions during the Track Record Period.

As we continue to open new Retail Outlets and expand our retail network, we expect our rental expenses related to our Retail Outlets will increase in the future. Our sales and profit growth will continue to depend on our ability to maintain the current size of the retail network for existing brands and/or to open new Retail Outlets to sell footwear products under new brands, our ability to effectively manage our Retail Outlets and the performance of these Retail Outlets.

The following sensitivity analysis illustrates the impact of hypothetical fluctuations in rental expenses on our profit before tax and our profit for the year during the Track Record Period. Fluctuations are assumed to be 5.0%, 8.0% and 10.0% for each of the three years ended 31 December 2010, 2011 and 2012, respectively, which correspond to the range of historical fluctuations of our rental expenses in respect to self-rented shops excluding contingent rent during the Track Record Period.

	(HK$'000, except percentages)					
Hypothetical Fluctuation	**+5%**	**-5%**	**+8%**	**-8%**	**+10%**	**-10%**
Impact on Certain Combined Income Statement Items for the year ended 31 December 2010						
Change in rental expenses	4,592	(4,592)	7,348	(7,348)	9,185	(9,185)
Change in profit before tax	(2,991)	2,991	(4,785)	4,785	(5,982)	5,982
Change in profit after tax	(2,434)	2,434	(3,894)	3,894	(4,868)	4,868
Impact on Certain Combined Income Statement Items for the year ended 31 December 2011						
Change in rental expenses	6,049	(6,049)	9,679	(9,679)	12,098	(12,098)
Change in profit before tax	(3,279)	3,279	(5,247)	5,247	(6,559)	6,559
Change in profit after tax	(2,748)	2,748	(4,397)	4,397	(5,496)	5,496
Impact on Certain Combined Income Statement Items for the year ended 31 December 2012						
Change in rental expenses	7,918	(7,918)	12,669	(12,669)	15,836	(15,836)
Change in profit before tax	(5,237)	5,237	(8,380)	8,380	(10,474)	10,474
Change in profit after tax	(4,360)	4,360	(6,977)	6,977	(8,721)	8,721

To manage the adverse impact of possible escalating the rental expenses, our management will negotiate the terms with the landlords or operators of the department stores and shopping malls in relation to the renewal of existing leases three to six months before their respective expiry dates. Our management will at the same time search for new locations as substitute. In case our leases could not be renewed with favourable terms upon expiry, our management would consider relocating such Retail Outlets to other suitable locations. Our management also intends to offer turnover based rent to secure the rental agreement in a longer period. Also, our management will ensure we have sufficient funding and working capital before we open/relocate our Retail Outlets.

Staff compensation expenses

Staff compensation costs is one of the significant components of our total costs. As at 31 December 2012, we had a total of 395 employees. Our sales commission in relation to our selling and distribution costs for the years ended 31 December 2010, 2011 and 2012 were approximately HK$8.3 million, HK$11.7 million and HK$11.4 million, respectively, representing approximately 2.3%, 2.5% and 2.3% of our total revenue, respectively. We seek to motivate our sales staff by performance-based commission in addition to their basic salary. During the Track Record Period, our sales staff received commission based on their ability to meet the weekly and monthly sales targets and special sales target set by our management. On the other hand, our total staff costs (including director emoluments) for the years ended 31 December 2010, 2011 and 2012 were approximately HK$60.9 million, HK$85.2 million and HK$82.2 million, respectively, representing approximately 16.6%, 18.0% and 16.3% of our total revenue, respectively.

CRITICAL ACCOUNTING POLICIES

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. The methods, estimates and judgments that we use in applying our accounting policies may have a significant impact on our results of operations. Some of the accounting policies require us to make difficult and subjective judgments, often as a result of the need to make estimates of matters that are inherently uncertain. Below is a summary of the accounting policies in accordance with HKFRS that we believe are important to the presentation of our financial results and involve the need to make estimates and judgments about the effect of matters that are inherently uncertain. We also have other policies that we consider to be key accounting policies, which are set forth in detail in Note 3 to the Accountants' Report in Appendix I to this prospectus.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold or service provided in the normal course of business, net of discounts and sales related taxes.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- we have transferred to the buyer the significant risks and rewards of ownership of the goods;
- we retain neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to our Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Service income is recognised when services are provided.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to our Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Property, plant and equipment

Property, plant and equipment including leasehold land (classified as finance leases) and buildings held for use in the production or supply of goods or services, or for administrative purposes are stated in the statements of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment less their residual values over their estimated useful lives, using the straight-time method or reducing balance method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease them and their useful lives.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Our Group as lessee

Assets held under finance leases are recognised as assets of our Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statements of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with our Group's policy on borrowing costs. Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

Leasehold land and building

When a lease includes both land and building elements, our Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to our Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as ''prepaid lease payments'' in the statements of financial position and is released over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

Financial assets

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, deposits, amount due from immediate holding company, amounts due from related companies, amount due from a related party and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include our Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the general credit period, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment

At the end of the reporting period, our Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

Recoverable amount is the higher of fair value less costs to sell and value in use. 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 for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

RESULTS OF OPERATIONS

The following table presents selected financial data relating to our results of operations during the Track Record Period as extracted from the Accountants' Report set out in Appendix I to this prospectus:

Combined Statements of Comprehensive Income

	For the year ended 31 December		
	2010	**2011**	**2012**
	(HK$'000)	*(HK$'000)*	*(HK$'000)*
Revenue	365,846	472,443	505,289
Cost of goods sold	(148,508)	(175,910)	(178,326)
Gross profit	217,338	296,533	326,963
Other income	446	378	626
Other (losses) gains	(977)	530	414
Selling and distribution costs	(111,056)	(152,553)	(188,144)
Administrative expenses	(82,019)	(105,631)	(104,880)
Finance costs	(1,508)	(1,666)	(1,747)
Listing expenses	—	—	(3,110)
Profit before taxation	22,224	37,591	30,122
Taxation	(4,139)	(6,089)	(5,043)
Profit for the year	18,085	31,502	25,079
Other comprehensive income (expense)			
Exchange differences arising on translation	298	(602)	465
Total comprehensive income for the year	18,383	30,900	25,544
Profit for the year attributable to owners of the Company	18,085	31,502	25,079
Total comprehensive income attributable to owners of the Company	18,383	30,900	25,544

DESCRIPTION OF SELECTED STATEMENTS OF COMPREHENSIVE INCOME LINE ITEMS

Revenue

Our revenue mainly derives from (i) retail through our Retail Outlets for sale of footwear products to end consumers; and (ii) wholesale through sales of footwear products to third parties which are mainly footwear retail chain stores and department stores. Revenue is measured net of discounts and returns. Our revenue increased by approximately HK$106.6 million or 29.1% from approximately HK$365.8 million for FY2010 to approximately HK$472.4 million for FY2011, and further increased by approximately HK$32.9 million or 7.0% to approximately HK$505.3 million for FY2012, representing a CAGR of approximately 13.9%.

Revenue by brands

The table below sets forth our revenue breakdown by brands and ASP for the periods indicated:

	For the year ended 31 December											
	2010				2011				2012			
	(HK$'000)	*%*	*Units*	*ASP*	*(HK$'000)*	*%*	*Units*	*ASP*	*(HK$'000)*	*%*	*Units*	*ASP*
Clarks	295,993	80.9	354,857	834	400,853	84.8	425,986	941	404,434	80.0	417,193	969
Josef Seibel	21,391	5.9	43,730	489	43,452	9.2	78,345	555	67,164	13.3	119,790	561
The Flexx	—	—	—	—	5,954	1.3	8,638	689	9,558	1.9	14,949	639
Yokono and Yokono K	—	—	—	—	—	—	—	—	1,382	0.3	2,374	582
Others[1]	48,462	13.2	105,222	461	22,184	4.7	122,522	181	22,751	4.5	106,684	213
Total	365,846	100.0	503,809	726	472,443	100.0	635,491	743	505,289	100.0	660,990	764

Note:

1. Others include footwear products of other brands and accessories.

Our revenue generated from the sales of Clarks and Josef Seibel branded footwear products contributed for a significant portion of our revenue during the Track Record Period, which represented approximately 86.8%, 94.0% and 93.3% of our revenue for the years ended 31 December 2010, 2011 and 2012, respectively.

Clarks

Our revenue from the sale of Clarks branded footwear products increased by approximately HK$104.9 million or 35.4% from approximately HK$296.0 million for FY2010 to approximately HK$400.9 million for FY2011, and further increased by approximately HK$3.5 million or 0.9% to approximately HK$404.4 million for FY2012, representing of a CAGR of approximately 12.7%. The increase in revenue from the sale of Clarks branded footwear products during the Track Record Period was attributable to the increase in footwear units sold from 354,857 units in FY2010 to 417,193 units in FY2012, representing a CAGR of approximately 8.4%. The increase was also reflected by the increase in ASP of approximately HK$107 between FY2010 and FY2011, and approximately HK$28 between FY2011 and FY2012.

Josef Seibel

Our revenue from the sale of Josef Seibel branded footwear products increased by approximately HK$22.1 million or 103.3% from approximately HK$21.4 million for FY2010 to approximately HK$43.5 million for FY2011, and continued to increase by approximately HK$23.7 million or 54.5% to approximately HK$67.2 million for FY2012, representing of a CAGR of approximately 77.2%. The increase in revenue from the sale of Josef Seibel branded footwear products during the Track Record Period was attributable to the increase in footwear units sold from 43,730 units in FY2010 to 119,790 units in FY2012, representing a CAGR of approximately 65.5%. The increase was also reflected by the increase in ASP of approximately HK$66 between FY2010 and FY2011 and approximately HK$6 between FY2011 and FY2012.

The Flexx

Our revenue from the sale of The Flexx branded footwear products increased by approximately HK$3.7 million or 62.7%, from approximately HK$5.9 million for FY2010 to approximately HK$9.6 million for FY2011. The increase in revenue from the sale of The Flexx branded footwear products was attributable to the increase in footwear units sold by 6,311 units, from 8,638 units in FY2011 to 14,949 units in FY2012 coupled with the decrease in ASP of approximately HK$50, from approximately HK$689 in FY2011 to approximately HK$639 in FY2012, as a result of selling The Flexx branded footwear products in our chain stores under the brand ''shoe mart'' at a discounted price to attract additional customers.

Yokono

Our Group recorded additional revenue from the sale of Yokono branded footwear products amounted approximately HK$1.4 million for the year ended 2012.

Others

Our revenue from the sale of others decreased during the Track Record Period primarily due to the product mix in this product category, mainly socks, insoles, footwear kits and other footwear accessories, resulting in a higher sales volume with a significantly lower ASP and a corresponding decrease in revenue during the Track Record Period.

The increase in our revenue from the sales of Clarks, Josef Seibel and others during the Track Record Period was primarily due to the increase in the number of footwear units sold and the increase of ASP. For the years ended December 2010, 2011 and 2012, we sold footwear units of 503,809 units, 635,491 units and 660,990 units, respectively, representing an increase of 131,682 units or approximately 26.1% between FY2010 and FY2011 and 25,499 units or approximately 4.0% between FY2011 and FY2012, representing a CAGR of approximately 14.5% during the Track Record Period. For the years ended December 2010, 2011 and 2012, our overall ASP were approximately HK$726, HK$743 and HK$764, the increase in our ASP is approximately 2.3% between FY2010 and FY2011 and 2.8% between FY2011 and FY2012.

Revenue by channels and geographical region

Our revenue generated from retail accounted for over 80.0% of our total revenue during the Track Record Period. Our revenue by geographical regions include Hong Kong, Taiwan and Macau. The table below sets forth our revenue breakdown by sales made through retail and wholesale sales, and sales derive from geographical regions for the periods indicated:

	For the year ended 31 December					
	2010		**2011**		**2012**	
	(HK$'000)	*%*	*(HK$'000)*	*%*	*(HK$'000)*	*%*
Hong Kong						
Retail	274,231	75.0	312,499	66.1	339,830	67.3
Wholesale	56,424	15.4	57,335	12.2	53,686	10.6
Subtotal	330,655	90.4	369,834	78.3	393,516	77.9
Taiwan						
Retail	19,912	5.4	76,797	16.3	87,354	17.3
Wholesale	4,268	1.2	11,470	2.4	9,635	1.9
Subtotal	24,180	6.6	88,267	18.7	96,989	19.2
Macau						
Retail	11,011	3.0	14,342	3.0	14,784	2.9
Wholesale	—	—	—	—	—	—
Subtotal	11,011	3.0	14,342	3.0	14,784	2.9
Total	**365,846**	**100.0**	**472,443**	**100.0**	**505,289**	**100.0**
Retail						
Self-rented shops	199,279	54.5	239,515	50.7	254,319	50.3
Concessions	105,875	28.9	164,123	34.7	187,649	37.2
	305,154	83.4	403,638	85.4	441,968	87.5
Wholesale	60,692	16.6	68,805	14.6	63,321	12.5
Total	**365,846**	**100.0**	**472,443**	**100.0**	**505,289**	**100.0**

Our revenue generated from retail sales was continuously increasing during the Track Record Period as per our Group's strategic development plan of targeting retail market over wholesale, our revenue from retail for the years ended 31 December 2010, 2011 and 2012 were approximately HK$305.1 million, HK$403.6 million and HK$442.0 million, representing approximately 83.4%, 85.4% and 87.5% of the total revenue, respectively, also representing a CAGR of approximately 20.3%, while our revenue generated from wholesale for the years ended 31 December 2010, 2011 and 2012 were approximately HK$60.7 million, HK$68.8 million and HK$63.3 million, representing approximately 16.6%, 14.6% and 12.5% of the total revenue, respectively, also representing an increase of approximately 4.3% from FY2010 to FY2012.

Our revenue derived from Hong Kong, Taiwan and Macau were attributable to the increase in sale of footwear products from our Retail Outlets. For the years ended 31 December 2010, 2011 and 2012, our revenue derived from Hong Kong were amounted approximately HK$330.7 million, HK$369.8 million and HK$393.5 million, representing approximately 90.4%, 78.3% and 77.9%, respectively. Our revenue derived from Taiwan increased by approximately HK$64.1 million or 264.9% from approximately HK$24.2 million for FY2010 to approximately HK$88.3 million for FY2011, and further increased by approximately HK$8.7 million or 9.9% to approximately HK$97.0 million for FY2012, representing of a CAGR of approximately 100.2%. Our revenue derived from Macau increased by approximately HK$3.8 million or 34.5% from approximately HK$11.0 million for FY2010 to approximately HK$14.8 million for FY2012, representing a CAGR of approximately 16.0%.

Our average annual revenue from retail per sq. ft. amounted to approximately HK$5,100, HK$5,700 and HK$5,700 for each of the three years ended 31 December 2010, 2011 and 2012, respectively. The stagnant growth in 2012 was mainly due to the global economic slowdown from the fiscal cliff in the United States and the debt crisis in the Eurozone, which affected economic recovery and consumer confidence.

Comparable Retail Outlet sales and gross profit

Our profitability is affected in part by our ability to successfully grow revenue from our existing Retail Outlets. We believe that comparable Retail Outlets sales provide a meaningful period-to-period comparison of Retail Outlets performance because they exclude increases that are due to the opening of new Retail Outlets. We define our comparable Retail Outlets base to be those Retail Outlets that were opened throughout the periods under comparison. For example, the comparable Retail Outlets for FY2010 and FY2011 are Retail Outlets that were opened and operating throughout both FY2010 and FY2011.

Comparable Retail Outlets sales are primarily affected by the selling price of our footwear products. We focused on increasing comparable Retail Outlets sales by (i) continuously introducing new product lines under our existing licensed brands and footwear products under new brands; and (ii) strategically targeting different types of customers using our footwear product mix and carefully selecting locations for Retail Outlets in high customer traffic areas.

The table below sets forth our comparable Retail Outlet sales over the Track Record Period.

	For the year ended 31 December		For the year ended 31 December	
	2010	2011	2011	2012
Number of comparable Retail Outlets				
Hong Kong	31	31	31	31
Taiwan	—	—	33	33
Macau	3	3	3	3
Total number	34	34	67	67
Comparable Retail Outlets sales *(HK$'000)*				
Hong Kong	189,778	227,222	252,980	259,045
Taiwan	—	—	69,602	69,057
Macau	11,010	14,342	14,342	14,784
Total sales	200,788	241,564	336,924	342,886
Percentage increase of comparable footwear sales during comparable periods				
Hong Kong	19.7%		2.4%	
Taiwan	—		(0.8)%	
Macau	30.3%		3.1%	
Overall increase	20.3%		1.8%	
Comparable Retail Outlets gross profit and gross profit margin *(HK$'000, except percentages)*				
Gross profit	129,448	159,815	215,266	221,246
Gross profit margin	64.5%	66.2%	63.9%	64.5%

Hong Kong

Our comparable Retail Outlet sales in Hong Kong recorded a growth rate of approximately 19.7% from approximately HK$189.8 million in the year ended 31 December 2010 to approximately HK$227.2 million in the year ended 31 December 2011. The growth was attributable to 31 existing Retail Outlets from 2010 to 2011, and the reasons for the growth were attributable to (i) the growing retail market in Hong Kong reflected by the strong support from mainland Chinese tourists; (ii) the increase in product mix; and (iii) the increase in ASP. Our comparable Retail Outlet sales in Hong Kong recorded a slower growth rate of approximately 2.4% from approximately HK$253.0 million in the year ended 31 December 2011 to approximately HK$259.0 million in the year ended 31 December 2012. The slower growth was mainly due to the global economic slowdown from the fiscal cliff in the United States and the debt crisis in the Eurozone, which affected economic recovery and consumer confidence.

Taiwan

Our comparable Retail Outlet sales in Taiwan remained relatively stable at approximately HK$69.6 million and HK$69.1 million for the two years ended 31 December 2012, respectively.

Macau

Our comparable Retail Outlet sales in Macau recorded a growth rate of approximately 30.3% from approximately HK$11.0 million in the year ended 31 December 2010 to approximately HK$14.3 million in the year ended 31 December 2011. The growth was mainly attributable to three existing Retail Outlets from 2010 to 2011, and the reasons for the growth were attributable to (i) the growing retail market in Macau reflected by the strong spending power from mainland Chinese visitors; (ii) the increase in product mix; and (iii) the increase in ASP. Our comparable Retail Outlet sales in Macau recorded a slower growth rate of approximately 3.1% from approximately HK$14.3 million in the year ended 31 December 2011 to approximately HK$14.8 million in the year ended 31 December 2012. The diminishing growth was mainly due to the global economic slowdown.

Our average turnover per Retail Outlet(1) decreased by approximately HK$0.1 million or 2.1%, from approximately HK$4.7 million for the year ended 31 December 2011 to approximately HK$4.6 million for the year ended 31 December 2012. The decrease was primarily due to (i) the slower growth rate of comparable Retail Outlet sales of approximately 1.8% in 2012 compare to 20.3% in 2011 because of the above reasons; (ii) the diminishing growth in sales generated from Retail Outlets in 2012 reflected by the global economic slowdown; and (iii) the growth in Retail Outlets from the net increase of 7 Retail Outlets during the year 2011 to 13 Retail Outlets during the year 2012 which some of the Retail Outlets are still in the development period for the sales of the newly opened Retail Outlets to pick up.

Gross profit and gross profit margin

Our comparable Retail Outlets' gross profit for the two years ended 31 December 2010 and 2011 were approximately HK$129.5 million and HK$159.8 million, respectively. The increase was primarily attributable to (i) the increase in sales from our newly added Retail Outlets which opened in 2009; and (ii) the increase in ASP of our products sold via our Retail Outlets. Our comparable Retail Outlets' gross profit for the two years ended 31 December 2011 and 2012 were approximately HK$215.3 million and HK$221.2 million, respectively. The increase was primarily attributable to (i) the increase in sales from our newly added Retail Outlets which opened in 2010; and (ii) the increase in ASP of our products sold via our Retail Outlets.

Our comparable Retail Outlets' gross profit margin for the two years ended 31 December 2010 and 2011 were approximately 64.5% and 66.2%, respectively. The increase was primarily attributable to the increase in ASP of our products sold via our Retail Outlets. Our comparable Retail Outlets' gross profit margin for the two years ended 31 December 2011 and 2012 were approximately 63.9% and 64.5%, respectively, which remained stable for the two years.

Our Group did not obtain any discounts or rebates from its suppliers during the Track Record Period. Our Group does not have any specific return policy with its suppliers and if there were any requests for reimbursement from the suppliers, it would be on a case by case basis.

Note:

1. Average turnover per Retail Outlet equal to the turnover divided by Average Retail Outlet. Average Retail Outlet equals Retail Outlets at the beginning of the year plus Retail Outlets at the end of the year divided by two.

Cost of goods sold

Our cost of goods sold primarily comprises of the cost of new footwear products purchased from our respective suppliers and allowance for inventories. For the three years ended 31 December 2010, 2011 and 2012, our cost of goods sold were approximately HK$148.5 million, HK$175.9 million and HK$178.3 million, respectively. Our cost of goods sold increased from approximately HK$148.5 million for the year ended 31 December 2010 to approximately HK$178.3 million for the year ended 31 December 2012, representing an increase of approximately HK$29.8 million or 20.1%. The increase was primarily a result of increase in sales volume of footwear products.

Gross profit and gross profit margin

The table below sets forth our breakdown of gross profit and gross profit margin by channels for the periods indicated:

	For the year ended 31 December					
	2010		2011		2012	
	Gross Profit	Margin	Gross Profit	Margin	Gross Profit	Margin
	(HK$'000)	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Retail	196,035	64.2	267,929	66.4	297,962	67.4
Wholesale	21,303	35.1	28,604	41.6	29,001	45.8
Total	217,338	59.4	296,533	62.8	326,963	64.7

Our gross profit were approximately HK$217.3 million, HK$296.5 million and HK$327.0 million, representing approximately 59.4%, 62.8% and 64.7% of the total revenue for the years ended 31 December 2010, 2011 and 2012, respectively.

Our gross profit margin from retail increased from approximately 64.2% for the year ended 31 December 2010 to approximately 66.4% for the year ended 31 December 2011, primarily attributable to an increase in ASP of our products sold via our Retail Outlets. Our gross profit margin from retail remained relatively stable at approximately 66.4% and 67.4% for the two years ended 31 December 2012, respectively.

Our gross profit margin of sales to wholesale customers increased from approximately 35.1% for the year ended 31 December 2010 to approximately 41.6% for the year ended 31 December 2011 and to approximately 45.8% for the year ended 2012, primarily attributable to the change in product mix where more footwear products of higher gross profit margin were sold to our wholesale customers. The footwear products sold to wholesale customers with higher gross profit margin during the Track Record Period were mainly products of Clarks and Josef Seibel; these footwear products were sold to wholesale customers within one month after being launched in our Retail Outlets and at a slightly lower selling price than our Retail Outlets. As a result, we sold to wholesale customers at a lower price and relied on wholesale customer as one of our sales channels.

Our gross profit margin of total revenue increased from approximately 59.4% for the year ended 31 December 2010 to approximately 62.8% for the year ended 31 December 2011 and to approximately 64.7% for the year ended 2012, primarily attributable to the increase in ASP of our footwear products. The increase in our ASP were approximately 2.3% between FY2010 and FY2011 and approximately 2.8% between FY2011 and FY2012, primarily reflected by our careful positioning and management of each brand and sales channel, and the offering of products which highlight each brand's unique style and image, which allowed us to position products of these brands with premium pricing. As a result, we were able to maintain the gross profit margin from overall sales of our footwear products during the Track Record Period.

Other income

Our other income mainly consists of (i) management fee income received from related parties, Zenico (Asia) Co., Ltd and Lekin Limited for leasing office space; (ii) commission income from our suppliers; and (iii) interest income from bank deposits.

Other (losses) gains

Our other (losses) gains mainly consist of (i) net exchange (loss) gain; and (ii) (loss) gain on disposal of property, plant and equipment.

Selling and distribution costs

The table below sets forth our breakdown of selling and distribution costs for the periods indicated:

	For the year ended 31 December					
	2010		2011		2012	
	(HK$'000)	%	*(HK$'000)*	%	*(HK$'000)*	%
Rental fees	63,473	57.2	78,001	51.1	108,438	57.6
Concession fees	28,372	25.6	42,982	28.2	49,921	26.5
Sales commission	8,326	7.5	11,668	7.6	11,467	6.1
Marketing and promotion expenses	7,809	7.0	8,171	5.5	2,776	1.5
Depreciation	296	0.3	1,537	1.0	2,534	1.3
Others*(Note)*	2,780	2.4	10,194	6.6	13,008	7.0
Total	111,056	100.0	152,553	100.0	188,144	100.0

Note:

Others primarily includes business development expenses, utility charges, and miscellaneous expenses.

Our selling and distribution costs primarily consist of rental fees, concession fees, sales commission, marketing and promotion expenses and depreciation. Sales commission and salary represents the performance based commission for our sales staff in addition to their basic salary. Selling and distribution costs were approximately HK$111.1 million, HK$152.6 million and HK$188.1 million, representing approximately 30.4%, 32.3% and 37.2% of the total revenue for the years ended 31 December 2010, 2011 and 2012, respectively.

Our selling and distribution costs increased by approximately HK$77.0 million or 69.3% from approximately HK$111.1 million in FY2010 to approximately HK$188.1 million in FY2012 primarily due to (i) the increase in rental fees by approximately HK$45.0 million as a result of increase in numbers of our Retail Outlets; (ii) the increase in concession fees by approximately HK$21.5 million as a result of increase in our department stores revenue; and (iii) the increase in sales commission by approximately HK$3.1 million.

Administrative expenses

The table below sets forth our breakdown of administrative expenses for the period indicated:

	Year ended 31 December					
	2010		2011		2012	
	(HK$'000)	*%*	*(HK$'000)*	*%*	*(HK$'000)*	*%*
Salaries and allowance	45,892	56.0	61,739	58.4	58,880	56.1
Depreciation	5,700	6.9	5,992	5.7	8,227	7.8
Building management fees	3,760	4.6	3,932	3.7	4,213	4.0
Mandatory provident fund	1,880	2.3	2,283	2.2	2,663	2.5
Staff welfare	3,303	4.0	2,617	2.5	1,527	1.5
Rent and rates	788	1.0	699	0.7	833	0.8
Auditor's remuneration	279	0.3	337	0.3	333	0.3
Entertainment expenses	78	0.1	107	0.1	217	0.2
Others*(Note)*	20,339	24.8	27,925	26.4	27,987	26.8
Total	82,019	100.0	105,631	100.0	104,880	100.0

Note:

Others primarily includes motor vehicles expenses, overseas travelling, bank charges and repairs and maintenance.

Our administrative expenses primarily consist of salaries and allowance, depreciation, building management fee, mandatory provident fund, rent and rates, staff welfare, auditor's remuneration and entertainment expenses. The building management fees represent the fees charged by property management companies of the building and premises and the operators of the department stores and shopping malls for common area maintenance. Administrative expenses were approximately HK$82.0 million, HK$105.6 million and HK$104.9 million, respectively, represented approximately 22.4%, 22.4% and 20.8% of our total revenue for the years ended 31 December 2010, 2011 and 2012, respectively.

Our administrative expenses increased by approximately HK$22.9 million or 27.9% from approximately HK$82.0 million in FY2010 to approximately HK$104.9 million in FY2012 primarily due to (i) the increase in salaries and allowance by approximately HK$13.0 million; and (ii) the increase in depreciation by approximately HK$2.5 million.

Finance costs

Our finance costs mainly represent interest expenses on (i) bank borrowings; (ii) amounts due to related parties; (iii) bank overdrafts; and (iv) finance leases obligations.

Taxation

Our Company and subsidiaries are incorporated in different jurisdictions with different taxation requirements. Our Hong Kong subsidiaries were subject to Hong Kong profits tax at 16.5% on the estimated assessable during the Track Record Period. Our Taiwan branch was subject to Taiwan profits tax at 17.0% on the estimated assessable profit during the Track Record Period. Our Macau subsidiary was subject to Macau Complementary Tax which is levied at progressive rates ranging from 9% to 12% on the estimated assessable profit during the Track Record Period. Our effective tax rates were approximately 18.6%, 16.2% and 16.7% for the years ended 31 December 2010, 2011 and 2012, respectively. Our higher effective tax rate in 2010 was due to non-deductible entertainment expenses and donations during the year.

Our Group had unutilised tax losses of approximately HK$117,000, HK$117,000 and HK$1,408,000 as at 31 December 2010, 2011 and 2012, respectively, which were mainly attributable to Aiuti and Shoe Mart Company. As at 31 December 2010, 2011 and 2012, there were unutilised tax losses of approximately HK$117,000, HK$117,000 and HK$117,000, respectively, which were recorded from Aiuti. Aiuti was a subsidiary of Grand Asian, and is principally engaged in trading of Aiuti branded footwear products in our Retail Outlets. Aiuti had recorded losses before the Track Record Period primarily due to the lack of sales. Aiuti ceased business since 2009 and became dormant from 2009 to 2012. On 21 January 2013, Grand Asian disposed of and transferred its entire interest in Aiuti to CN Fashion. As at 31 December 2012, an additional unused tax loss unutilised of approximately HK$1,291,000 was recorded from Shoe Mart Company. Shoe Mart Company is a subsidiary of Grand Asian, and is principally engaged in the sale of discounted footwear products. The unutilised tax loss recorded from Shoe Mart Company was primarily due to the increase in expenses in 2012 mainly arising from opened three new self-rented shops under Shoe Mart Company in March, May and August 2012, respectively.

Our Directors confirm that we have made all required tax filings in all relevant jurisdictions and paid all tax liabilities that have become due. We are not subject to any dispute or potential dispute with any tax authorities.

REVIEW OF HISTORICAL OPERATING RESULTS

Period to period comparison of results of operations

FY2012 compared with FY2011

Revenue

Our revenue increased from approximately HK$472.4 million in FY2011 to approximately HK$505.3 million in FY2012, with an increase of approximately HK$32.9 million or 7.0%. The increase was primarily attributable to the increase in sales volume reflected by overall growth in demand under the footwear industry in Hong Kong, Taiwan and Macau, which were related to greater PRC tourist flows into Hong Kong, and Taiwan and Macau with growing wealth and consumption power and greater desire for more well-established brands. The increase was also attributable to the increase in our ASP of approximately 2.8% in FY2012 as part of our Group's pricing strategy.

Revenue by channels

Our Group's reportable segment revenue derived from retail increased by approximately HK$38.4 million or 9.5% from approximately HK$403.6 million in the FY2011 to approximately HK$442.0 million in the FY2012. The increase in retail was primarily attributable to the increase in sales volume and addition of 12 and five Retail Outlets added in Hong Kong and Taiwan, respectively.

Our Group's reportable segment revenue derived from wholesale to external customers decreased by approximately HK$5.5 million or 8.0% from approximately HK$68.8 million in the FY2011 to approximately HK$63.3 million in the FY2012. The decrease in the wholesale to external customers was primarily reflected by our Group's strategic development plan of targeting retail market over wholesale as a result of higher profit margin.

Revenue by geographical region

Our Group's revenue derived from Hong Kong increased by approximately HK$23.7 million or 6.4% from approximately HK$369.8 million in FY2011 to approximately HK$393.5 million in FY2012. The increase was primarily reflected by the increase in sales volume from retail coupled with addition of 12 Retail Outlets opened in Hong Kong in FY2012.

Our Group's revenue derived from Taiwan increased by approximately HK$8.7 million, or 9.9% from approximately HK$88.3 million in FY2011 to approximately HK$97.0 million in FY2012. The increase was primarily reflected by the increases from retail attributable to the increase in sales volume from retail and addition of five Retail Outlets opened in FY2012.

Our Group's revenue derived from Macau increased by approximately HK$0.5 million or 3.5% from approximately HK$14.3 million in FY2011 to approximately HK$14.8 million in FY2012. The increase was primarily reflected by the increase in ASP and the increase in sales volume from the same Retail Outlets compared to last year.

Cost of goods sold

Our cost of goods sold increased from approximately HK$175.9 million in FY2011 to approximately HK$178.3 million in FY2012, with an increase of approximately HK$2.4 million or 1.4%. The increase was primarily attributable to the increase in footwear sales volume.

Gross profit and gross profit margin

Our gross profit increased by approximately HK$30.5 million or 10.3%, from approximately HK$296.5 million in FY2011 to approximately HK$327.0 million in FY2012. The gross profit margin increased from approximately 62.8% in FY2011 to approximately 64.7% in FY2012 which was primarily due to the increase in sales volume coupled with our adjustment of product mix and selling price which increased our sales of high margin products.

Gross profit and gross profit margin from retail

Our gross profit from retail increased by approximately HK$30.1 million or 11.2%, from approximately HK$267.9 million in FY2011 to approximately HK$298.0 million in FY2012 and the gross profit margin from retail for the FY2011 and FY2012 were approximately 66.4% and 67.4%, respectively, which remained stable for the two years. Our management believed that our slight increase in gross profit margin from retail to approximately 67.4% was primarily due to the increase in ASP of footwear products of approximately 2.8% in the FY2012.

Gross profit and gross profit margin from wholesale

Our gross profit from wholesale increased by approximately HK$0.4 million or 1.4%, from approximately HK$28.6 million in FY2011 to approximately HK$29.0 million in FY2012 and the gross profit margin from wholesale increased by approximately 4.2% from approximately 41.6% in FY2011 to approximately 45.8% in FY2012, was attributable to (i) the increase in ASP; and (ii) change in product mix where high profit margin footwear products were sold to our wholesale customers. Our management believe that Clarks branded footwear products are still in high demand in terms of the purchases from our wholesale customers despite the higher selling price coupled with higher profit margin, which will always affect our gross profit margin from wholesale.

Other income

Our other income increased by approximately HK$0.2 million or 50.0%, from approximately HK$0.4 million in FY2011 to approximately HK$0.6 million in FY2012. The increase was mainly reflected by the additional management fee income of approximately HK$0.1 million from the related company, Lekin Limited.

Other (losses) gains

Our other (losses) gains decreased by approximately HK$0.1 million or 20.0%, from approximately HK$0.5 million in FY2011 to approximately HK$0.4 million in FY2012. The amount mainly comprised of net exchange gain of approximately HK$0.4 million.

Selling and distribution costs

Our selling and distribution costs increased by approximately HK$35.5 million or 23.3%, from approximately HK$152.6 million in FY2011 to approximately HK$188.1 million in FY2012. The increase was primarily due to (i) the increase in rental fees by approximately HK$30.4 million from the increase in rental fees on all Retail Outlets and the addition of 17 Retail Outlets as a result of the expansion of our sales network; and (ii) the increase in concession fees by approximately HK$6.9 million from the increase in sales in concessions within the department stores.

Administrative expenses

Our administrative expenses decreased by approximately HK$0.7 million or 0.7%, from approximately HK$105.6 million in FY2011 to approximately HK$104.9 million in FY2012. The decrease was primarily reflected by the decrease in salaries and allowance of approximately HK$2.8 million as no directors' fee and performance related incentive payment were declared, the effect of which was partially offset by the increase in depreciation of approximately HK$2.2 million.

Finance costs

Our finance costs increased by approximately HK$0.1 million or 4.9%, from approximately HK$1.7 million in FY2011 to approximately HK$1.7 million in FY2012. The increase was primarily reflected by the increase in interest expense due to increase in bank borrowings.

Taxation

Our taxes decreased by approximately HK$1.1 million or 18.0%, from approximately HK$6.1 million in FY2011 to approximately HK$5.0 million in FY2012. The decreased was primarily reflected by to the decrease in profit before taxation in FY2012. Our effective income tax rate for the FY2011 and FY2012 were approximately 16.2% and 16.7%, respectively, which remained stable for the two years.

Profit for the year

As a result of the foregoing factors, our profit for the year decreased by approximately HK$6.4 million or 20.3%, from approximately HK$31.5 million in FY2011 to approximately HK$25.1 million in FY2012.

FY2011 compared with FY2010

Revenue

Our revenue increased from approximately HK$365.8 million in FY2010 to approximately HK$472.4 million in FY2011, with an increase of approximately HK$106.6 million or 29.1%. The increase was primarily attributable to the increase in sales volume from 18 additional Retail Outlets and overall growth in demand under the footwear industry in Hong Kong, Taiwan and Macau, which relates to greater PRC tourist flows into Hong Kong, Taiwan and Macau with growing wealth and consumption power and greater desire for more well-established brands. The increase was also attributable to the increase in our ASP of approximately 2.3% in FY2011 as part of our Group's pricing strategy.

Revenue by channels

Our Group's reportable segment revenue derived from retail increased by approximately HK$98.4 million or 32.2% from approximately HK$305.2 million in the FY2010 to approximately HK$403.6 million in the FY2011. The increase in retail was primarily attributable to the increase in sales volume and addition of 11 and 7 Retail Outlets added in Hong Kong and Taiwan, respectively.

Our Group's reportable segment revenue derived from wholesale to external customers increased by approximately HK$8.1 million or 13.4% from approximately HK$60.7 million in the FY2010 to approximately HK$68.8 million in the FY2011. The increase in the wholesale to external customers was primarily reflected by increase in wholesale sales in Taiwan upon the establishment of Kong Tai Sundry Goods (Taiwan) in June 2010.

Revenue by geographical region

Our Group's revenue derived from Hong Kong increased by approximately HK$39.1 million or 11.8% from approximately HK$330.7 million in FY2010 to approximately HK$369.8 million in FY2011. The increase was primarily reflected by the increase in the sales volume from retail coupled with addition of 11 retail outlets opened in Hong Kong in FY2011.

Our Group's revenue derived from Taiwan increased by approximately HK$64.1 million or 264.9% from approximately HK$24.2 million in FY2010 to approximately HK$88.3 million in FY2011. The increase was primarily reflected by a full year of sales recorded in FY2011, whereas the sales in FY2010 only recorded for a few months due to the branch in Taiwan was newly incorporated since June of FY2010.

Our Group's revenue derived from Macau increased by approximately HK$3.3 million or 30.0% from approximately HK$11.0 million in FY2010 to approximately HK$14.3 million in FY2011. The increase was primarily reflected by the increase in ASP and the increase in sales volume for the same Retail Outlets compared to last year.

Cost of goods sold

Our cost of goods sold increased from approximately HK$148.5 million in FY2010 to approximately HK$175.9 million in FY2011, with an increase of approximately HK$27.4 million or 18.5%. The increase was primarily attributable to increase in footwear sales volume.

Gross profit and gross profit margin

Our gross profit increased by approximately HK$79.2 million or 36.4%, from approximately HK$217.3 million in FY2010 to approximately HK$296.5 million in FY2011. The gross profit margin increased from approximately 59.4% in FY2010 to approximately 62.8% in FY2011 which was primarily due to the increase in sales volume coupled with our adjustment of product mix and selling price which increased our sales of high margin products.

Gross profit and gross profit margin from retail

Our gross profit from retail increased by approximately HK$71.9 million or 36.7%, from approximately HK$196.0 million in FY2010 to approximately HK$267.9 million in FY2011 and the gross profit margin from retail increased by approximately 2.2% from approximately 64.2% in FY2010 to approximately 66.4% in FY2011, was attributable to (i) the increase in ASP; and (ii) the increase in sales volume of higher margin footwear products.

Gross profit and gross profit margin from wholesale

Our gross profit from wholesale increased by approximately HK$7.3 million or 34.3%, from approximately HK$21.3 million in FY2010 to approximately HK$28.6 million in FY2011 and the gross profit margin from wholesale increased by approximately 6.5% from approximately 35.1% in FY2010 to approximately 41.6% in FY2011, was attributable to (i) the increase in selling price for Clarks branded footwear products sold to our wholesale customers; and (ii) change in product mix where high profit margin footwear products were sold to our wholesale customers.

Other income

Our other income for the FY2010 and FY2011 were approximately HK$0.4 million and HK$0.4 million, respectively, which remained stable for the two years.

Other (losses) gains

Our other (losses) gains increased by approximately HK$1.5 million or 153.1%, from a loss of approximately HK$0.98 million in FY2010 to a gain of approximately HK$0.53 million in FY2011. The amount mainly comprised of gain on disposal of property, plant and equipment of approximately HK$0.43 million and net exchange gain of approximately HK$0.12 million.

Selling and distribution costs

Our selling and distribution costs increased by approximately HK$41.5 million or 37.4%, from approximately HK$111.1 million in FY2010 to approximately HK$152.6 million in FY2011. The increase was primarily due to (i) the increase in rental fees by approximately HK$14.5 million, from the increase in rental fees on all Retail Outlets and the addition of 18 Retail Outlets as a result of the expansion of our sale network; (ii) the increase in concession fees by approximately HK$14.6 million from the increase in sales in concessions within the department stores; (iii) the increase in sales commission by approximately HK$3.3 million; and (iv) the increase in depreciation by approximately HK$1.2 million.

Administrative expenses

Our administrative expenses increased by approximately HK$23.6 million or 28.8%, from approximately HK$82.0 million in FY2010 to approximately HK$105.6 million in FY2011. The increase was mainly due to the increase in salaries and allowance of approximately HK$15.8 million.

Finance costs

Our finance costs increased by approximately HK$0.2 million or 13.3%, from approximately HK$1.5 million in FY2010 to approximately HK$1.7 million in FY2011. The increase was primarily reflected by the increase in interest expense due to increase in bank borrowings.

Taxation

Our taxes increased by approximately HK$2.0 million or 48.8%, from approximately HK$4.1 million in FY2010 to approximately HK$6.1 million in FY2011. The increase was primarily reflected by to the increase in profit before taxation in FY2011. Our effective income tax rate decreased from approximately 18.6% in FY2010 to approximately 16.2% in FY2011 primarily due to the impact of non-deductible entertainment expenses and donations in FY2010.

Profit for the year

As a result of the foregoing factors, our profit for the year increased by approximately HK$13.4 million or 74.0%, from approximately HK$18.1 million in FY2010 to approximately HK$31.5 million in FY2011.

LIQUIDITY AND CAPITAL RESOURCES

We have historically met our working capital and other liquidity requirements through a combination of cash flow from operations and bank loans. We were able to repay our obligations under bank loans when they became due during the Track Record Period. Our Directors are not aware of any material change to the underlying drivers of the sources of cash of our Group and the use of cash by our Group subsequent to 31 December 2012 and up to the date of this prospectus. The management of our Group is responsible for handling the liquidity risk management. Our Group is able to manage liquidity risk by maintaining adequate reserves, banking facilities, continuously monitoring forecast and actual cash flows and matching the maturity profiles of assets and liabilities. In the event that additional working capital is required for business expansion, our Group may approach banks to obtain additional banking facilities and/or negotiate with its existing bank for an increase in banking facilities. Our principal uses of cash have been, and are expected to continue to be, operational costs and capital investments for maintaining existing Retail Outlets and opening of new Retail Outlets under our expansion of retail network.

To ensure our Group's operating cash flow can maintain at a sufficient level, our management will closely monitor the pace of our Group's expansion. The Directors will control the pace of its expansion of the opening of new Retail Outlets. We will intend to maintain an inventory of around 1,000 to 3,000 pair of shoes for each Retail Outlet, based on the product mix and sale of our footwear products currently sold at our Retail Outlets. In the event that there is any significant change in the product mix, retail price or sale of footwear products, we will adjust the benchmark of our inventory level accordingly. We will reduce our aged inventory by selling them in our chain stores under the brand ''shoe mart'', which is operated using the concept of selling footwear products from different brands mostly of previous seasons at a discounted price to avoid possible excessive level of inventory. We believe that by targeting to achieve and maintain such inventory benchmark level as a key performance indicator, we will incentivise our management of merchandising department and sales department to stringently control and closely monitor the inventory level, so that we will be able to improve the efficiency in our cash flow and resource management while maintaining just the right level of inventory to allow for our continuous growth and expansion. With the adoption of the foregoing target inventory benchmark, based on our current estimate and assuming that there will not be material change in (i) the sales trends of our footwear products; (ii) the credit period for receipt of our trade receivables; and (iii) the credit terms for payment of our trade payables and barring any other unforeseen circumstances. Furthermore, our expansion plan of opening Retail Outlets will use approximately 42.8% of net proceeds from the Global Offering and will be adjusted according to the financial condition and market demand in order that our operating cash flow will be maintained at a sufficient and healthy level.

Cash flows

The following table sets forth a summary of our cash flows for the periods indicated.

	Year ended 31 December		
	2010	2011	2012
	(HK$'000)	*(HK$'000)*	*(HK$'000)*
Net cash from / (used in) operating activities	49,763	12,874	(15,857)
Net cash used in investing activities	(40,714)	(523)	(5,719)
Net cash from financing activities	427	1,032	16,941
Increase (decrease) in cash and cash equivalents	9,476	13,383	(4,635)
Cash and cash equivalents at beginning of the year	9,788	19,471	32,448
Effect of foreign exchange rate changes	207	(406)	215
Cash and cash equivalent at end of the year	19,471	32,448	28,028

Cash flow from / used in operating activities

Our cash flow from / used in operating activities primarily comprised our profit before taxation adjusted for non-cash items such as depreciation and provision for inventories, the effect of changes in trade and other receivables and payables, the changes in inventories and rental deposits.

For the FY2012, our Group experienced a net cash used in operating activities of approximately HK$15.9 million. The net cash used in operating activities was a result of (i) operating cash inflow before movement in working capital of approximately HK$38.0 million; (ii) the net working capital outflow of approximately HK$45.9 million; and (iii) profit tax paid in the amount of approximately HK$8.0 million. The net working capital outflow primarily consisted of (i) an increase in inventories of approximately HK$26.7 million; (ii) a decrease in trade and other payables of approximately HK$12.5 million; (iii) an increase in rental deposits of approximately HK$4.2 million; and (iv) an increase in trade and other receivables of approximately HK$2.5 million.

For the FY2011, our Group experienced a net cash from operating activities of approximately HK$12.9 million. The net cash generated from operating activities was a result of (i) operating cash inflow before movement in working capital changes in the amount of approximately HK$51.6 million; (ii) the net working capital of approximately HK$33.3 million; and (iii) profit tax paid in the amount of approximately HK$5.4 million. The outflow primarily consisted of (i) a decrease in trade and other payables of approximately HK$9.9 million; (ii) an increase in inventories of approximately HK$9.2 million; (iii) an increase in rental deposits of approximately HK$7.4 million; and (iv) an increase in trade and other receivable of approximately HK$6.8 million.

For the FY2010, our Group experienced a net cash from operating activities of approximately HK$49.8 million. The net cash generated from operating activities was a result of (i) operating cash inflow before movement in working capital changes in the amount of approximately HK$32.0 million; (ii) the net working capital inflow of approximately HK$19.7 million; and (iii) profit tax paid in the amount of approximately HK$1.9 million. The net working capital inflow primarily consisted of (i) an increase in trade and other payables of approximately HK$30.0 million; and (ii) a decrease in inventories of approximately HK$3.7 million, the effects of which were partially offset by (i) an increase in trade and other receivables of approximately HK$11.4 million; and (ii) an increase in rental deposits of approximately HK$2.6 million.

Cash flow used in investing activities

Our cash used in investing activities mainly comprised the payment of purchase of property, plant and equipment, advances to related companies and immediate holding company, and repayment from related companies.

For the FY2012, our Group experienced net cash used in investing activities of approximately HK$5.7 million. The net cash used was mainly due to the purchase of property, plant and equipment of approximately HK$12.2 million and advance to related party of approximately HK$1.1 million, the effects of which were mainly offset by repayments from related companies of approximately HK$3.9 million and repayments from immediate holding company of approximately HK$3.6 million.

For the FY2011, our Group experienced net cash used in investing activities of HK$0.5 million. The net cash used was mainly due to purchase of property, plant and equipment of approximately HK$14.7 million. The effects of which were partially offset by repayments from immediate holding company and related companies of approximately HK$8.4 million and HK$5.6 million, respectively.

For the FY2010, our Group experienced net cash used in investing activities of HK$40.7 million. The net cash used was mainly due to purchase of property plant and equipment of approximately HK$31.1 million, advances to related companies and immediate holding company of approximately HK$6.3 million and HK$4.0 million, respectively. The effects of which were offset by repayments from immediate holding company of approximately HK$0.5 million and proceeds from the disposal of property, plant and equipment of HK$0.1 million.

Cash flow from financing activities

Our cash flow from financing activities mainly consisted of the proceeds from new bank loans, advance from intermediate holding company, repayment of bank borrowings, repayment to related companies and dividend paid.

For the FY2012, our Group experienced net cash used in financing activities of approximately HK$16.9 million. The net cash inflow from financing activities was primarily consisted of new bank loans raised of approximately HK$74.4 million and advance from immediate holding company of approximately HK$4.6 million. These amounts were partially offset by (i) repayments of bank borrowings of approximately HK$48.9 million; (ii) repayments to related companies of HK$8.8 million; (iii) dividends paid of approximately HK$2.5 million; and (iv) interest paid of approximately HK$1.7 million.

For the FY2011, our Group experienced net cash from financing activities of approximately HK$1.0 million. Our net cash inflow from financing activities primarily consisted of new bank loans raised of approximately HK$43.2 million. The amount was partially offset by (i) repayments of bank borrowings of approximately HK$30.4 million; (ii) dividend paid of approximately HK$5.6 million; (iii) repayments to related companies of approximately HK$4.4 million; and (iv) interest paid of approximately HK$1.7 million.

For the FY2010, our Group experienced net cash from financing activities of approximately HK$0.4 million. Our net cash inflow from financing activities primarily consisted of (i) new bank loans raised of approximately HK$37.2 million; (ii) advance from shareholders of approximately HK$5.0 million; and (iii) advance from related companies of approximately HK$2.8 million. These amounts were partially offset by (i) repayments of bank borrowings of approximately HK$41.1 million; (ii) repayments to immediate holding company of approximately HK$1.8 million; and (iii) interest paid of approximately HK$1.5 million.

Net current assets

The following tables sets forth our current assets, current liabilities, and net current assets as at the dates indicated.

	As at 31 December			As at 30 April
	2010	2011	2012	2013
	(HK$'000)	*(HK$'000)*	*(HK$'000)*	*(HK$'000)* (unaudited)
Current assets				
Inventories	90,537	94,517	125,852	142,881
Trade and other receivables	54,572	58,684	67,013	92,119
Amount due from immediate holding company	12,017	3,620	—	—
Amounts due from related companies	9,513	3,945	—	8
Amount due from a related party	—	527	1,630	1,639
Taxation recoverable	30	—	—	—
Bank balances and cash	19,471	32,448	28,028	16,832
	186,140	193,741	222,523	253,479
Current liabilities				
Trade and other payables	57,596	49,901	34,924	46,245
Amount due to immediate holding company	—	—	4,580	4,580
Amounts due to related companies	13,222	8,837	—	61
Amounts due to related parties	11,000	11,000	11,000	3,000
Taxation payable	3,169	4,147	1,392	1,945
Bank borrowings — due within one year	36,845	51,612	77,697	78,204
Obligations under finance leases — due within one year	133	—	—	—
	121,965	125,497	129,593	134,035
Net current assets	64,175	68,244	92,930	119,444

The increase in net current assets during FY2010, FY2011 and FY2012 primarily reflected in (i) the increase in inventories as a result of the increase in inventory procurement in anticipation of the increase in sales, to support the expansion of our Retail Outlets and to increase our product mix to target various type of customers; (ii) the increase in other receivables as a result of the increase in rental deposits for entered into new leases when open new Retail Outlets; and (iii) the decrease in trade payables as a result of our Group's usual intention to make payment faster to maintain strong business relationship with suppliers and negotiate better pricing for footwear products with respective suppliers for future years. These amounts were partially offset by the increase in bank borrowings for our Group's working capital during the Track Record Period.

As at 30 April 2013, our bank balances and cash amounted to approximately HK$16.8 million. The decrease in bank balances and cash as compared to 31 December 2012 (HK$28.0 million) was mainly due to the repayment of amounts due to related parties of HK$8.0 million and repayment of dividend payable to CN Fashion of HK$2.1 million.

As at 31 December 2012, our amount due from a related party of approximately HK$1.6 million represents an advance to Mr. Dominic Chu, a director of the Company and a shareholder of KTS International. This amount will be fully settled by Mr. Dominic Chu before the Listing. Please refer to Note 25 of the Accountants' Report in Appendix I to this prospectus for further details of amount due from a related party.

WORKING CAPITAL SUFFICIENCY

Taking into account the financial resources available to us, including the estimated net proceeds of the Global Offering, the available credit facilities and our internally generated funds, our Directors believe that our Group will have sufficient working capital to satisfy our requirements for at least the next 12 months following the date of this prospectus.

INVENTORIES

Our inventories primarily consisted of footwear products purchased from our suppliers. We had to maintain a relatively high level of inventories for sales and display and to avoid stock shortage at our Retail Outlets and for opening of new Retail Outlets. Our management carried out an inventory review and an ageing analysis on a regular basis. We made provision for obsolete and slow-moving inventories of finished goods that were no longer suitable for sale. A number of factors including historical and forecast consumption of our SKUs, marketability of our SKUs, were taken into account when we considered whether to make appropriate provision. We normally made provision for inventories of our footwear products, which were identified to be slower or no sale with deteriorated marketability. The following table sets forth our inventory balances as at the dates indicated:

	As at 31 December		
	2010	**2011**	**2012**
	(HK$'000)	*(HK$'000)*	*(HK$'000)*
Finished goods	90,537	94,517	125,852

The value of our inventory as at 31 December 2010, 2011 and 2012 were approximately HK$90.5 million, HK$94.5 million and HK$125.9 million respectively. The increase of approximately HK$4.0 million or 4.4% in finished goods inventory from 2010 to 2011 was primarily due to (i) an increase in the number of Retail Outlets operated by us from 82 as at 31 December 2010 to 89 as at 31 December 2011, primarily due to our Group's expansion plan; and (ii) maintain a stable inventory level after a significant increase in sales in FY2011. The increase of approximately HK$31.3 million or 33.2% in finished goods inventory from 2011 to 2012 was primarily due to maintaining a sufficient level of inventory for our newly opened Retail Outlets from 89 as at 31 December 2011 to 102 as at 31 December 2012, as well as to increase our footwear product mix level to target various type of customers and to cope with our estimated sales demand for next year. As at 31 May 2013, approximately HK$85.7 million or 68.1% of the finished goods as at 31 December 2012 were subsequently sold. Our Company considers that such level of inventory is reasonable, taking into account that for the net increase of around 13 new Retail Outlets were opened during the year ended 31 December 2012, there is usually a development period for the sales of the newly opened Retail Outlets to pick up.

At the end of each season, our management reviews the sales of each of the SKUs, then compare to the overall footwear market trend to monitor the adequacy of our provision for obsolete and slow-moving inventories of our footwear products on a case-by-case basis. For the three years ended 31 December 2012, the allowance for obsolete inventories amounted to approximately HK$1.8 million, HK$7.0 million and HK$2.4 million, respectively. During the year ended 31 December 2012, part of the obsolete and slow-moving footwear products of approximately HK$7.0 million determined by our management in 2011 were sold to independent customers via our sale channels at or above original cost plus direct selling expenses and resulted in a reversal of allowance of approximately HK$4.6 million in 2012. Our Directors and the Sole Sponsor are of the view that based on the abovementioned, the bases of the allowance made for inventories as at the end of the Track Record Period were reasonable and adequate.

The following table sets forth our average inventory turnover days for the periods indicated:

	For the year ended 31 December		
	2010	**2011**	**2012**
Average inventory turnover days(1)	229.4	192.0	225.5
Average inventory turnover days at Retail Outlets(2)	187.0	180.8	188.5

Notes:

1. Average inventory turnover days equal to the average inventory divided by cost of goods sold and multiplied by 365 days. Average inventory equals inventory at the beginning of the year plus inventory at the end of the year divided by two.

2. Average inventory turnover days at Retail Outlets equal to the average inventory at Retail Outlets divided by the relevant cost of goods sold multiplied by 365 days. Average inventory at Retail Outlets equal to average inventory at Retail Outlets at the beginning of the year plus inventory at the Retail Outlets at the end of the year divided by two.

Our average inventory turnover days decreased from approximately 229.4 days in FY2010 to approximately 192.0 days in FY2011 primarily reflected by greater sales due to the economic recovery in 2011. Our average inventory turnover days increased from approximately 192.0 days in FY2011 to approximately 225.5 days in FY2012 primarily due to (i) approximately 33.2% increase in inventory to maintain a sufficient level of inventory for our newly opened Retail Outlets; (ii) the reversal of allowance for inventories of HK$4.6 million in cost of goods sold from the sales of the obsolete and slow-moving footwear products determined by our management in 2011; and (iii) increase our footwear product mix level to target various type of customers and to cope with our planned Retail Outlets expansion in 2013.

Our average inventory turnover days at Retail Outlets remained stable from approximately 187.0 days in FY2010 to approximately 180.8 days in FY2011, then to approximately 188.5 days in FY2012. The trend is in line with the trend of average inventory turnover days. Our average inventory turnover days at Retail Outlets were shorter than that of our Group, primarily due to (i) constantly move inventory from warehouse to Retail Outlets to replenish footwear that have been sold at Retail Outlets; (ii) transfer of goods between Retail Outlets to enhance our flexibility of inventory management in our Retail Outlets; and (iii) the calculation of our average inventory turnover days at Retail Outlets has not accounted for inventory and cost of goods sold in respect of wholesale.

The table below sets forth our inventory at Retail Outlets by brands as at 31 December 2012 and subsequent sale of inventories until 31 May 2013:

	Inventory at Retail Outlets as at 31 December 2012		**Subsequent sale until 31 May 2013**		
	SKUs	*(HK$'000)*	*SKUs*	*(HK$'000)*	*%*
Clarks	154,501	61,934	123,974	44,365	71.6
Josef Seibel	47,657	10,601	41,779	10,421	98.3
The Flexx	7,899	1,942	5,715	1,256	64.7
Yokono and Yokono K	3,024	670	745	153	22.9
Others	41,983	5,826	29,989	3,617	62.1
Total	255,064	80,973	202,202	59,812	73.9

Our Directors believe that our footwear products by nature are not fast-moving and have a relatively long product life cycle. Our inventory turnover days are in line with the industry norm. Our Group intends to maintain an inventory benchmark level of approximately 1,000 to 3,000 SKUs per Retail Outlet (based on the size of the Retail Outlet) by 31 December 2013 and thus to improve our cash flow and liquidity position. Based on the latest average monthly sales figures per Retail Outlet of approximately 500 SKUs and average inventory balance per Retail Outlet of approximately 1,000 to 3,000 SKUs for the year ended 31 December 2012, if we could maintain our target level of sales in the coming financial year, we believe that the current level of inventory of footwear products for sales through our Retail Outlets would be fully turned-around before the end of 2013. Moreover, transfer of goods between Retail Outlets is performed on a weekly basis from Retail Outlets with longer turnover periods to those with shorter turnover periods to enhance sales. If our inventory level rises significantly above the optimal level or this is anticipated to happen, we will reduce our aged inventories by selling them in our chain stores under the trade name ''shoe mart'', which is operated using the concept of selling footwear products from different brands mostly of previous seasons at a discounted price to avoid possible excessive level of inventory. By closely monitoring the level of future sales, our Group is confident to achieve the benchmark level of approximately 1,000 to 3,000 SKUs per Retail Outlet by 31 December 2013. Based on the above, the Directors and the Sole Sponsor are of the view that the inventory management policies are effective. For further details of the inventory control, please refer to the section headed ''Our Business — Inventory Control and Logistics'' in this prospectus.

We try to maintain an optimal level of inventory by comparing the level of inventory with the sales revenue within a particular period, subject to the prevailing market conditions, and as reserve inventory to support the new Retail Outlets to be opened within the following four to six months. The inventory of our footwear products has to be stocked for the following purposes: (i) as rolling inventory for turnover and replenishing footwear that have been sold; (ii) to support the expansion of our Retail Outlets; (iii) to cater for the seasonality of our business, which results in a relatively high balance of inventory at year end as we generally have a relatively high level of inventory at the end of each year comprising fall and winter footwear in anticipation of the sales peak during the Chinese New Year holidays and our fall and winter footwear generally have higher unit cost than those of our spring and summer footwear; and (iv) our diverse offering of footwear products, which requires us to maintain a relatively high inventory level to accommodate a broad range of product offerings.

The following table sets forth the summary of the aging analysis of our inventories as at the dates indicated:

	As at 31 December		
	2010	**2011**	**2012**
	(HK$'000)	*(HK$'000)*	*(HK$'000)*
Within 1 year	66,774	83,844	113,653
1 to 2 years	14,634	10,673	12,199
2 to 3 years	6,914	—	—
Over 3 years	2,215	—	—
Total	90,537	94,517	125,852

Taking into account (i) our increase in revenue over the Track Record Period, (ii) the aging of over 90% of our inventories was within 1 year in the year ended 31 December 2012; and (iii) our minimal provision for inventories made, our Directors are of the view that our increase inventories during the Track Record Period was driven by genuine demand for sustaining our business growth rather than merely for the satisfaction of minimum purchase requirement.

During the five years ended 31 December 2010, our Group sold to United Overseas Sundry Goods accumulated inventories amounted to approximately HK$218.8 million and recorded an average gross profit margin ranged from approximately 8% to 16% over the five years ended 31 December 2010. During the year ended 31 December 2010, our Group made purchase of remaining inventories of approximately HK$23.5 million from United Overseas Sundry Goods at a discount of approximately 10.0% of the selling price to United Overseas Sundry Goods, in which all of those inventories were sold by our Group from financial years ended 31 December 2006 to 2010. Included in the amount of approximately HK$23.5 million was sales return amounted to approximately HK$13.5 million which represented the goods supplied by our group during the year ended 31 December 2010, and such sales return was settled by cash. As a result, the remaining repurchase of approximately HK$10.0 million was disclosed as related party transaction for the year ended 31 December 2010 and has been fully settled as at the Latest Practicable Date. As at 31 December 2012, all of the inventories purchased from United Overseas Sundry Goods during the year ended 2010 were completely sold.

TRADE AND OTHER RECEIVABLES

Trade and bills receivables

Our trade and bills receivables primarily consisted of receivables from department stores and wholesalers. Generally, we receive payments from department stores with the credit period range from 30 to 60 days. For wholesalers, we allowed a credit period range from 30 to 60 days. The following table sets forth our trade and bills receivables as at the indicated dates:

	As at 31 December		
	2010	**2011**	**2012**
	(HK$'000)	*(HK$'000)*	*(HK$'000)*
Trade receivables	29,278	35,861	36,293
Bills receivables	10,340	14,185	13,267
Less: Allowance for doubtful debts	(97)	(113)	(119)
Total	39,521	49,933	49,441

Our trade and bills receivables as at 31 December 2010, 2011 and 2012 were approximately HK$39.5 million, HK$49.9 million and HK$49.4 million, respectively. The approximately HK$10.4 million or 26.3% increase in our trade receivables from 2010 to 2011 was mainly due to higher sales volume during Christmas holiday season at the year end. Our trade and bills receivables remained stable in FY2012 despite the approximately 7.0% increase in revenue from FY2011 to FY2012, reflected that our Group has made more cash sales in our self-rented shops relatively compared to our credit sales at concessions within department stores.

The following table sets forth our average trade and bills receivables turnover days for the periods indicated:

	For the year ended 31 December		
	2010	2011	2012
Average trade and bills receivables turnover days(Note)	29.3	34.6	35.9

Note:

Average trade and bills receivables turnover days is equal to the average trade and bills receivables divided by revenue and multiplied by 365 days. Average trade and bills receivables equals trade and bills receivables at the beginning of the year plus trade and bills receivables at the end of the year and divided by two.

Our average trade and bills receivables turnover days increased from approximately 29.3 days in FY2010 to approximately 34.6 days in FY2011 primarily due to increase in trade and bills receivables as a result of higher sales volume during Christmas holiday season at year end from our concessions within department stores. Our average trade and bills receivables turnover days in FY2012 remained stable within our credit period, which explained that our Group had maintained a strong business relationships with department stores and wholesales customers with stable cash collection period.

The table below sets forth the aging analysis of our trade and bills receivables, based on the invoice date and net of provision for impairment as at 31 December 2010, 2011 and 2012.

	As at 31 December		
	2010	2011	2012
	(HK$'000)	*(HK$'000)*	*(HK$'000)*
Within 30 days	21,396	28,955	40,599
31 to 60 days	12,355	13,526	2,945
61 to 90 days	3,674	3,687	3,893
Over 90 days	2,096	3,765	2,004
Total	39,521	49,933	49,441

The management of our Group periodically monitored and reviewed the credit conditions of our department stores and wholesalers. The trade and bills receivables that were past due but not impaired related to department stores and wholesalers, which were independent customers that had a good track records with us. Our management considers that we do not have significant credit risks in view of the good credit history of those department stores and wholesalers. Based on the historical experience of our Group, trade receivables that were past due but not impaired were generally recoverable. As at 31 December 2010, 2011 and 2012, our trade and bills receivables that were past due as at the end of the reporting periods for which our Group had not provided for impairment loss amounted to approximately HK$5.8 million, HK$7.5 million and HK$5.9 million, respectively. These related to a wide range of customers for whom there were no history of default. We did not hold any collateral or other credit enhancements over the balance. As at 31 May 2013, 98.6% of the trade receivables balance as at 31 December 2012 had been settled.

Other receivables

Our other receivables primarily consisted of rental deposits and rental prepayments we made to landlords, the operators of the department stores and shopping malls. The rental deposits and rental prepayments were charged by landlord, the operators of the department stores and shopping malls when we entered into rental agreements with them.

The following table sets forth our other receivables balances as at the dates indicated:

	As at 31 December		
	2010	**2011**	**2012**
	(HK$'000)	*(HK$'000)*	*(HK$'000)*
Deposits	9,653	6,772	12,823
Prepayments	4,287	1,787	2,691
Others	1,111	192	2,058
Total	15,051	8,751	17,572

The amounts of our other receivables were HK$15.0 million, HK$8.8 million and HK$17.6 million as 31 December 2010, 2011 and 2012, respectively. The decrease of approximately HK$6.2 million or 41.3% in our other receivables from 2010 to 2011 was attributable to the decrease in deposits of approximately HK$2.9 million reflected by (i) some of the rental deposits that were repaid by landlords, the operators of the department stores and shopping malls due to closure of a number of Retail Outlets in 2011 as part of our business adjustment; and (ii) some of the rental deposits related to existing leases including new leases added in 2010 that had reached over one year in the lease term, which the rental deposits had become non-current rental deposits and resulted in an increase of approximately 125.0% in non-current rental deposits in 2011. The decrease in 2011 was also reflected by the decrease in prepayments of approximately HK$2.5 million as a result of less prepaid rent required from the 19 newly added leases in 2011. The increase of approximately HK$8.8 million or 100.8% in our other receivables from 31 December 2011 to 31 December 2012 was due to the increase in deposits and prepayment of approximately HK$7.0 million due to an increase in rental deposits and prepaid rent made to landlords, the operators of the department stores and shopping malls for entered into new leases, as result of 16 new Retail Outlets in 2012 according to our Group's expansion plan.

TRADE AND OTHER PAYABLES

Trade payables

Our trade payables primarily consisted of payables to third-party suppliers. The following table sets forth our trade payables as at the indicated dates:

	As at 31 December		
	2010	**2011**	**2012**
	(HK$'000)	*(HK$'000)*	*(HK$'000)*
Trade payables	23,866	9,517	6,892

Our trade payables primarily consisted of payables to third-party suppliers. Our trade payables as at 31 December 2010, 2011 and 2012 were approximately HK$23.9 million, HK$9.5 million and HK$6.9 million, respectively. The approximately 60.3% decrease from 2010 to 2011 was primarily reflected by the remaining trade payables due to United Overseas Sundry Goods, a related company of our Group as well as a customer of our Group, which amounted to approximately HK$20.2 million as at 31 December 2010 and were fully settled in 2011. Such amount was resulted from the total purchase of footwear products from United Overseas Sundry Goods which amounted to approximately HK$23.5 million during the year ended 31 December 2010. Our trade payable amounted to approximately HK$9.5 million as at 31 December 2011 has included purchases of inventories to maintain a stable inventory level after a significant increase in sales in FY2011. The decrease in our trade payables from 2011 to 2012 was primarily reflected by relatively more cash used to settle the purchases of inventories as compared with previous year, as a result of our Group's usual intention to maintain strong business relationship with suppliers and to negotiate better pricing for footwear products with respective suppliers going forward.

The following table sets forth our average payables turnover days for the periods indicated:

	For the year ended 31 December		
	2010	**2011**	**2012**
Average trade payables turnover days *(Note)*	37.1	34.6	16.8

Note:

Average trade payables turnover days is equal to the average trade payables divided by cost of goods sold and multiplied by 365 days. Average trade payables equals trade payables at the beginning of the year plus trade payables at the end of the year and divided by two.

Our Group experienced high average trade payables turnover days of approximately 37.1 days in FY2010 and approximately 34.6 days in FY2011. The high trade payable turnover days was mainly resulted from high level of trade payables as at 31 December

2010. The computation of average trade payables turnover days for FY2010 and FY2011 was affected by the remaining balance of trade payables due to United Overseas Sundry Goods amounted to approximately HK$20.2 million as at 31 December 2010 was resulted from the total purchase of footwear products from United Overseas Sundry Goods which amounted to HK$23.5 million during the year ended 31 December 2010, which these average trade payables turnover days were higher than our average trade credit period granted to us by our suppliers. Our average trade payables turnover days decreased from approximately 34.6 days in FY2011 to approximately 16.8 days in FY2012, the decrease was mainly attributable to (i) the computation of average trade payables turnover days for FY2011 which was affected by the remaining balance of trade payables to United Overseas Sundry Goods in the beginning of 2011 due to the above reasons; and (ii) relatively more cash was used to settle the purchases of inventories compared to previous year, as our Group intends to maintain strong business relationship with suppliers and to negotiate better pricing for footwear products with respective suppliers going forward. There was no material changes in the credit period granted to us by our suppliers, and our average trade payables turnover days in 2012 are lower and within the average credit period as the remaining balance of trade payables due to United Overseas Sundry Goods were fully settled in 2011.

The table below sets forth the aging analysis of the trade payables as at 31 December 2010, 2011 and 2012 based on invoice dates:

	As at 31 December		
	2010	**2011**	**2012**
	(HK$'000)	*(HK$'000)*	*(HK$'000)*
Within 30 days	1,269	7,271	4,758
31 to 60 days	651	1,679	1,184
61 to 90 days	21,007	353	912
Over 90 days	939	214	38
Total	23,866	9,517	6,892

The trade payables were normally settled on an average credit period of 30 days.

The management of our Group reviewed trade payables aging report on a monthly basis during the Track Record Period. Before making payments to settle the trade payables, our Group's management took into account various factors including but not limited to (i) the suppliers' credit terms; (ii) the expected cash outflow to suppliers for settlement of purchase made by our Group after the relevant credit period offered; (iii) the remaining amount of banking facilities available to our Group; (iv) the expected cash inflow from customers for settlement of purchase from our Group after the relevant credit period granted to them; and (v) the prevailing market conditions which may affect the length of payable turnover.

Other payables

Our payables primarily consisted of accrued expenses and dividend payables.

The following table sets forth our other payables balances as at the dates indicated:

	As at 31 December		
	2010	**2011**	**2012**
	(HK$'000)	*(HK$'000)*	*(HK$'000)*
Accrued expenses	26,359	32,340	19,931
Dividend payable	2,404	4,572	2,072
Others	4,967	3,472	6,029
Total	33,730	40,384	28,032

The amounts of our other payables were approximately HK$33.7 million, HK$40.4 million and HK$28.0 million as at 31 December 2010, 2011 and 2012, respectively. The increase from 2010 to 2011 was primarily due to (i) the increase in bonus provision of approximately HK$8.1 million; and (ii) increase in dividend payable as our Group declared a dividend of approximately HK$7.7 million in 2011. The decrease from 2011 to 2012 was primarily due to (i) decrease in bonus provision of approximately HK$9.5 million; and (ii) decrease in dividend payable as our Group did not declare any dividend in 2012.

As at 31 December 2012, our dividend payable was approximately HK$2.1 million. The amount will be settled before the Listing.

As at 30 April 2013, being the indebtedness date which is no more than eight weeks prior to the date of this prospectus, trade payables of approximately HK$6.9 million, which were part of the ending balance as at 31 December 2012, were settled.

INDEBTEDNESS

Set out below are our bank borrowing, finance leases, amount due to immediate holding company, amount due to a related companies, amount due to related parties as at the date shown:

	As at 31 December			As at 30 April
	2010	**2011**	**2012**	**2013**
	(HK$'000)	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*
Bank borrowings:				
Bank loans	35,575	22,731	20,140	22,833
Loans related to bills discounted with recourse	10,340	14,185	13,267	13,628
Trust receipt loans	8,898	30,696	59,650	56,463
	54,813	67,612	93,057	92,924
Amounts payable under finance leases:				
Within one year	139	—	—	—
More than one year but not more than two years	21	—	—	—
Less: future finance charges	(7)	—	—	—
Present value of lease obligations	153	—	—	—
Amount due to immediate holding company	—	—	4,580	4,580
Amounts due to related companies	13,222	8,837	—	—
Amounts due to related parties	11,000	11,000	11,000	3,000
	79,188	87,449	108,637	100,504

Bank borrowings

As at 31 December 2012, our bank borrowings included trust receipt loans, loans related to bills discounted with recourse and bank loans. The effective interest rates per annum for our trust receipt loans, loans related to bills discounted with recourse and bank loans ranged from 1.6% to 3.5% in FY2010, 1.6% to 3.2% in FY2011, and 1.6% to 3.2% in FY2012. The amount of bank loans were approximately HK$54.8 million, HK$67.6 million, and HK$93.1 million, representing approximately 22.3%, 26.9% and 37.9% of our total bank facilities obtained as at 31 December 2010, 2011 and 2012, respectively. Such increase was primarily due to increase in trust receipt loans of approximately HK$21.8 million and HK$29.0 million in FY2011 and FY2012, respectively.

As at 30 April 2013, the amount of bank loans were approximately HK$92.9 million, representing approximately 36.8% of our total bank facilities, and the amount of unutilised bank facilities were approximately HK$159.6 million, representing approximately 63.2% of our total bank facilities.

Our Group's use of trust receipt loans during the Track Record Period was to strengthen our working capital, mainly for our Group to purchase inventories without making immediate cash payments to suppliers that would tie up our cash to the inventories, thus our Group is able to deploy our cash for other activities, such as (i) expansion of opening new Retail Outlets; (ii) purchase of different types of footwear products to increase our product mix; and (iii) maintain sufficient level of inventories for our Retail Outlets. Our trust receipt loans were interest bearing with financing period ranging from 90days to 150days. The weighted average interest rates were approximately 2.84%, 2.82% and 2.88% as at 31 December 2010, 2011 and 2012, respectively. For some of the trust receipt loans, the bank may, at any time, immediately modify, terminate, cancel or suspend the entire arrangement or any part of it; and the bank has the overriding right, at any time, to require immediate payment of all principal, interests, fees and other amounts outstanding under the arrangement. Our Group was not aware of any existing loan facilities that are not renewable as at the Latest Practicable Date.

The amounts of bank borrowings are repayable as follows:

	As at 31 December		
	2010	**2011**	**2012**
	(HK$'000)	*(HK$'000)*	*(HK$'000)*
Carrying amount repayable			
Within one year	25,962	48,112	76,197
More than one year, but not more than two years	1,284	1,231	1,280
More than two years, but not more than five years	3,850	3,692	3,840
More than five years	12,834	11,077	10,240
	43,930	64,112	91,557
Bank borrowings that are not repayable within one year from the end of the reporting period but contain a repayable on demand clause as shown under current liabilities	10,883	3,500	1,500
	54,813	67,612	93,057

The range of effective interest rates (which are also equal to contracted interest rates) on our Group's borrowings as at 31 December 2010, 2011 and 2012, respectively, is as follows:

	As at 31 December		
	2010	2011	2012
Effective interest rates:			
Variable-rate borrowings	1.6%–3.5%	1.6%–3.2%	1.6%–3.2%

At the close of business on 30 April 2013, being the latest practicable date for the purpose of this indebtedness statement, we had outstanding (i) amount due to immediate holding company of approximately HK$4.6 million; (ii) amounts due to related parties of approximately HK$3.0 million; and (iii) bank borrowings of approximately HK$92.9 million including loans related to bills discounted with recourse and trust receipt loans (of which HK$31.1 million was unsecured and HK$61.8 million was secured by fixed charges over certain of our Group's assets, including leasehold land and buildings and refundable deposits).

As at 30 April 2013, the total bank borrowings of approximately HK$39.1 million was guaranteed by Mr. Chu and Mr. H. S. Chong, directors of our Group, and such personal guarantees will be released upon Listing.

As at 30 April 2013, the total bank borrowings of approximately HK$17.7 million was guaranteed by Mr. Chu and such personal guarantees will be released upon Listing.

Other than the bank borrowings guaranteed by Mr. Chu and Mr. H. S. Chong, the remaining indebtedness are unguaranteed.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, we did not have outstanding at the close of business on 30 April 2013 any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities.

As at 30 April 2013, being the indebtedness date, the total amount of facilities available to us amounted to approximately HK$159.6 million. On the same date, our indebtedness amounted to approximately HK$100.5 million and mainly represented bank borrowings of approximately HK$92.9 million, representing approximately 36.8% of our total bank facilities obtained. The interest rates of such bank borrowings ranged from 1.6% to 3.2%.

For details of the guarantees provided by related parties, please refer to Note 33 to the Accountants' Report in Appendix I to this prospectus. As confirmed by our Directors, there were no material defaults in payment of bank borrowings during the Track Record Period and up to the Latest Practicable Date. All guarantees provided by related parties will be fully released upon Listing.

Amounts due to related parties

As at 31 December 2012, our amounts due to related parties represent loans from Mr. Chu and Ms Wong May Heung, a close family member of Mr. Chu was approximately HK$11.0 million. The amounts are to finance working capital of our Group which are interest bearing at prime lending rate and repayable on demand. Our Group borrowed from related parties at prime lending rate which is widely used in Hong Kong. A commercial bank facility was not considered as such loan usually requires pledged assets and personal guarantees to secure the borrowings. Due to our Group's asset-light business model, our Group therefore borrowed from related parties as a result. Approximately HK$8.0 million was repaid by cash up to 30 April 2013 and the remaining balance will be settled by part of the net proceeds from the Global Offering. Please refer to Note 25 of the Accountants' Report in Appendix I to this prospectus for further details of amounts due to related parties.

Amount due to immediate holding company

As at 31 December 2012, our amount due to immediate holding company, KTS International, was approximately HK$4.6 million. This amount will be fully settled by part of the net proceeds from the Global Offering. Please refer to Note 20 to the Accountants' Report in Appendix I to this prospectus for further details of amount due to immediate holding company.

CONTINGENT LIABILITIES

As at the Latest Practicable Date, we are not aware of any pending or potential material legal proceedings involving our Group, or to our directors knowledge, threatened against us which could have a material adverse effect on our business or operations. The Directors confirm that as at the Latest Practicable Date, other than disclosed in the paragraph headed ''Indebtedness'' in this section, we did not have any material contingent liabilities.

DIRECTORS' EMOLUMENTS

Our Directors' emoluments for the years ended 31 December 2010, 2011 and 2012 were approximately HK$8.6 million, HK$16.5 million and HK$7.2 million, respectively. Our Directors' emoluments increased by approximately HK$7.9 million or 91.9% from approximately HK$8.6 million for FY2010 to approximately HK$16.5 million for FY2011, primarily due to (i) the increase in performance related incentive payments of approximately HK$4.6 million was determined by our management based on the increase in net profit in FY2011; (ii) the increase in salaries and allowances of approximately HK$1.9 million primarily reflected by the increase in salaries of Mr. Chu Chun Ho, Dominic due to his significant involvement in our Group's strategic decision-making in 2011; and (iii) the increase in fees for directors of approximately HK$1.4 million determined by our management based on our Group's operating results in FY2011. Our Directors' emoluments decreased by approximately HK$9.3 million or 56.4% from approximately HK$16.5 million for FY2011 to approximately HK$7.2 million for FY2012, as a result of our management decided not to pay any performance related incentive payment and fee to our Directors in FY2012 due to the decrease in net profit in FY2012 and to reserve more internal resources for our Group's expansion plan.

During the Track Record Period, there were no salary, allowance and performance related incentive payment paid by our Group to the three non-executive Directors as they did not involve in our Group's daily operation. However, fees were paid to the three non-executive Directors in the FY2010 and FY2011 as a result of our management's decision based on our Group's operating results in FY2010 and FY2011.

In addition, there was no service contract entered between our Directors and our Company during the Track Record Period, the Directors' emoluments were determined by our management based on the performance of our Directors and our Group's operating results.

During the Track Record Period, there was no Directors' emolument (including fees, salaries and performance related incentive payments) paid by any related party of our Group and our Directors are not entitled to any performance related incentive payments which will be paid after the Global Offering.

DISCLAIMER

Save as aforesaid or as otherwise disclosed herein and apart from normal trade payables and accrued charges, as at 31 December 2012, we did not have any outstanding mortgages, charges, debentures, loan capital, bank loans and overdrafts, debt securities, or other similar indebtedness, finance leases or hire purchase commitments, liabilities, under acceptances or acceptance credits or guarantees or other material contingent liabilities.

OFF-BALANCE SHEET ARRANGEMENTS

As at 31 December 2012, being the date of our most recent financial statements, we have not entered any off-balance sheet arrangements.

OTHER KEY FINANCIAL RATIOS

	As at/For the year ended 31 December		
	2010	2011	2012
Current ratio[(1)]	1.5 times	1.5 times	1.7 times
Quick ratio[(2)]	0.8 times	0.8 times	0.7 times
Gearing ratio[(3)]	54.4%	54.5%	62.2%
Debt to equity ratio[(4)]	35.2%	28.3%	43.4%
Interest coverage[(5)]	15.7 times	23.6 times	18.2 times
Return on total assets[(6)]	7.5%	11.9%	8.6%
Return on equity[(7)]	17.9%	25.4%	16.8%
Net profit margin[(8)]	4.9%	6.7%	5.0%

Notes:

1. Current ratio is calculated based on the total current assets divided by the total current liabilities as at the relevant year end.

2. Quick ratio is calculated based on the total current assets less inventories divided by the total current liabilities as at the relevant year end.

3. Gearing ratio is calculated based on the total debt divided by the total equity as at the relevant year end and multiplied by 100%.

4. Debt to equity ratio is calculated by the net debt (all borrowings net of cash and cash equivalents) divided by the total equity as at the relevant year end and multiplied by 100%.

5. Interest coverage is calculated by the profit before interest and tax divided by interest as at the relevant year end.

6. Return on total assets is calculated by net profit for the year divided by the total assets as at the relevant year end and multiplied by 100%.

7. Return on equity is calculated by net profit for the year divided by the shareholders' equity as at the relevant year end and multiplied by 100%.

8. Net profit margin is calculated by net profit after taxes divided by the revenue for the relevant year and multiplied by 100%.

Current ratio

Our current ratio remained stable during the Track Record Period at approximately 1.5, 1.5 and 1.7 as at FY2010, FY2011 and FY2012, respectively. The slight increase in current ratio as at FY2012 primarily reflected by the increase in inventories and other receivables.

Quick ratio

Our quick ratio remained stable during the Track Record Period at approximately 0.8, 0.8 and 0.7 as at FY2010, FY2011 and FY2012, respectively. The slight decrease in quick ratio as at FY2012 primarily reflected by the slight increase in current liabilities due to the increase in bank borrowing.

Gearing ratio

Our gearing ratio was approximately 54.4%, 54.5% and 62.2% as at FY2010, FY2011 and FY2012, respectively. The increased from approximately 54.5% as at FY2011 to approximately 62.2% as at FY2012 primarily due to the increase in trust receipt loans for our Group's working capital, representing an approximately 37.6% increase in bank borrowings.

Debt to equity ratio

As at FY2010, FY2011 and FY2012, our debt to equity ratio was approximately 35.2%, 28.3% and 43.4%, respectively. Our debt to equity decreased from approximately 35.2% as at FY2010 to approximately 28.3% as at FY2011 primarily reflected by an approximately 66.6% increase in bank balances and cash in FY2011. Our debt to equity increase from approximately 28.3% as at 2011 to approximately 43.4% as at 2012 primarily due to the increase in trust receipt loans for our Group's daily operation, representing an approximately 37.6% increase in bank borrowings.

Interest coverage

Interest coverage was approximately 15.7 times, 23.6 times and 18.2 times for the FY2010, FY2011 and FY2012, respectively. Our interest coverage increased from approximately 15.7 times for the FY2010 to approximately 23.6 times for the FY2011 primarily attributable to an approximately 65.4% increase in profit before interest and tax as a result of increase in sales in FY2011. Our interest coverage decreased from approximately 23.6 times for the FY2011 to approximately 18.2 times for the FY2012 primarily due to a decrease in profit before interest and tax affected by (i) the increase in selling and distribution costs; and (ii) the listing expenses.

Return on total assets

For the FY2010, FY2011 and FY2012, our return on total assets was approximately 7.5%, 11.9% and 8.6%, respectively. Our return on assets increased from approximately 7.5% for the FY2010 to approximately 11.9% for the FY2011 primarily due to an approximately 74.2% increase in profit for the year. Our return on assets decreased from approximately 11.9% for the FY2011 to approximately 8.6% for the FY2012 primarily reflected by (i) the decrease in profit for the year; and (ii) the increase in total assets resulted from increase in inventory and other receivables.

Return on equity

For the FY2010, FY2011 and FY2012, our return on equity was approximately 17.9%, 25.4% and 16.8%, respectively. Our return on equity increased from approximately 17.9% for the FY2010 to approximately 25.4% for the FY2011 primarily due to an approximately 74.2% increase in profit for the year. The major growth drivers for the increase in our return on equity were (i) the increase of approximately 36.7% in net profit margin attributable to greater increase in gross profit than the increase from selling and distribution costs and administrative expenses combined; and (ii) the increase of approximately 17.1% in asset turnover ratio (sales/total assets) reflected by approximately 21.4% increase in sales, the effects of which were partially set off by the decrease of approximately 10.5% in financial leverage ratio (total assets/total equity) due to greater increase in total equity from approximately 24.4% increase in reserve than the overall increase in total assets. Our return on equity decreased from approximately 25.4% for the FY2011 to approximately 16.8% for the FY2012 primarily reflected by (i) the decrease of approximately 20.4% in profit for the year; and (ii) the increase of approximately 20.6% in total equity resulted from increase in reserves. The decrease in our return on equity also affected by (i) the decrease in net profit margin of approximately 25.4% due to the slower growth in sales coupled with larger selling and distribution costs; (ii) the decrease of approximately 7.9% in financial leverage ratio due to the increase of approximately 26.7% in reserve; and (iii) the decrease of approximately 3.4% in asset turnover ratio reflected by the faster growth in total assets than the growth in sales.

Net profit margin

Our net profit margin was approximately 4.9%, 6.7% and 5.0% for the FY2010, FY2011 and FY2012, respectively. Our net profit margin decreased from approximately 6.7% for the FY2011 to approximately 5.0% for the FY2012 primarily due to (i) the increase in selling and distribution costs; and (ii) the listing expenses.

COMMITMENTS

Operating lease commitments

We lease premises for certain of our Retail Outlets and offices under non-cancellable operating lease arrangements, and the term of these leases ranges from one to five years. As at 31 December 2010, 2011 and 2012, we had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	As at 31 December		
	2010	**2011**	**2012**
	(HK$'000)	*(HK$'000)*	*(HK$'000)*
Within one year	49,721	98,241	109,405
In the second to fifth year, inclusive	47,724	92,397	65,613
	97,445	190,638	175,018

Capital expenditures

The following table sets forth a summary of our capital expenditures during the Track Record Period:

	For the year ended 31 December		
	2010	**2011**	**2012**
	(HK$'000)	*(HK$'000)*	*(HK$'000)*
Addition of property, plant and equipment			
— Leasehold land and buildings	21,477	—	—
— Leasehold improvements	6,658	11,468	10,436
— Furniture, fixtures and equipment	1,519	1,869	1,760
— Motor vehicles	1,403	1,408	—
Total	31,057	14,745	12,196

Our capital expenditures during the Track Record Period primarily related to expenditures on purchase of property, plant and equipment which were funded out of the bank loans, finance leases, and cash flows from our operations. Our total capital expenditures amounted to approximately HK$31.1 million, HK$14.7 million and HK$12.2 million for each of the FY2010, FY2011 and FY2012, respectively.

We plan to finance future capital expenditures mainly through the net proceeds of the Global Offering, bank loans, as well as from cash flows generated from operations. As we expect to continue our expansion over the retail network, we may incur additional capital expenditures.

DIVIDENDS AND DIVIDEND POLICY

Our Board has absolute discretion in whether to declare any dividend for any year and, if it decides to declare a dividend, how much dividend to declare. During the three years ended 31 December 2012, we declared dividends of approximately HK$1.4 million, HK$7.7 million and nil, respectively. On 11 June 2013, we declared a dividend of HK$20.0 million which will be paid partly from our internal resources and partly from the net proceeds (which represents approximately 26.7% of the net proceeds) from the Global Offering. Our Directors have considered several factors such as entitlements of existing Shareholders to our retained profits and reserves and our bank balance and cash, being HK$149.7 million and HK$28.0 million as at 31 December 2012, respectively when declaring the dividend. Our Directors, having considered that the use of part of the net proceeds from the Global Offering to fund the dividend declared would not adversely affect our Group's operating cash flow, are of the view that the dividend declared is fair and reasonable and in the best interest of our Company and the Shareholders as a whole. Past payments and non-payments of dividends are not indicative of our future dividend policy.

We currently intend to pay dividends of approximately 20% to 60% of our profits available for distribution beginning from the year ending 31 December 2013. Going forward, we will re-evaluate our dividend policy in light of our financial position and the prevailing economic climate. However, the determination to pay dividends will be made at the discretion of our Board and will be based upon our earnings, cash flow, financial condition, capital requirements, statutory fund reserve requirements and any other conditions that our Directors deem relevant. The payment of dividends may also be limited by legal restrictions and by financing agreements that we may enter into in the future. Our future declarations of dividends may or may not reflect our historical declarations of dividends and will be at the absolute discretion of the Board. Such discretion is subject to any applicable laws and regulations including the Companies Law, and our Articles and Association which requires also the approval of our Shareholders.

RELATED PARTY TRANSACTIONS

With respect to the related party transactions set out in note 33 to our combined financial statements included in the Accountants' Report in Appendix I to this prospectus, our Directors confirm that these transactions were conducted on normal commercial terms and/or that such terms were no less favourable to our Group than terms available to Independent Third Parties and were fair and reasonable and in the interest of our Shareholders as a whole.

For a discussion of related party transactions, please refer to the paragraph headed ''— Indebtedness — Amounts due to related parties'' in this section and Note 33 to the Accountants' Report in Appendix I to this prospectus.

DISTRIBUTABLE RESERVES

As at 31 December 2012, our Company has no distributable reserves available for distribution to its Shareholders.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

Currency risk

Our Group's sales are denominated in HK$, MOP and NT$. For NT$, there was no history of significant currency fluctuation noted by our Group. For other currencies, as the transaction amounts are insignificant to our Group, the financial impact of exchange differences between these HK$ and currencies is expected to be immaterial. Our Group's purchases and expenses are either denominated in HK$, RMB, Euros and US dollars. Since the majority of our purchases are denominated in US dollars, under the linked exchange rate system, the financial impact of exchange differences between HK$ and US dollars is expected to be immaterial. We have no significant foreign currency borrowings. Our Group currently does not have a foreign currency hedging policy. Based on the past history on foreign exchange risk exposure of our Group, our Directors believe that our

Group's exposure to foreign currency risk is insignificant. However, the management continuously monitors the foreign exchange risk exposure and will consider to hedge significant currency risk exposure should the need arise.

Interest rate risk

Our Group is exposed to cash flow interest rate risk in relation to bank balances, amounts due to related parties and bank borrowings. Our Group's exposure to cash flow interest rate risk is mainly concentrated on the fluctuation of Prime lending rate, benchmark interest rate of Central Bank of Taiwan and Hong Kong Interbank Offered Rate. We currently do not have a policy on cash flow hedges of interest rate risk. However, our management monitors interest rate exposure and will consider hedging significant interest rate risk should the need arise.

Credit risk

Our Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2010, 2011 and 2012 in relation to each class of recognised financial assets is the carrying amount of these assets as stated in the statements of financial position.

We have delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, our Group reviews the recoverable amount of each individual trade receivable at the end of each reporting period to ensure that adequateimpairment losses are made for irrecoverable amounts. In this regard, the directors of our Company consider that our Group's credit risk is significantly reduced. We have no significant concentration of credit risk on trade receivables, with exposure spread over a number of counterparties.

Liquidity risk

We monitor and maintain a level of cash and cash equivalents deemed adequate by management to finance our Group's operations and mitigate the effects of fluctuations in cash flows.

Please refer to Note 6 of the Accountants' Report in Appendix I to this prospectus for further details on the above risks.

Listing Expenses

The total amount of listing expenses, commissions together with SFC transaction levy and Stock Exchange trading fee that will be borne by us in connection with the Global Offering is estimated to be approximately HK$19.1 million (based on the mid-point of the indicative Offer Price range), of which approximately HK$11.1 million is expected to be capitalised after the Listing. The remaining amount of approximately HK$8.0 million was or is expected to be charged to our profit and loss accounts, of which approximately HK$3.1 million and HK$1.7 million were charged for the year ended 31 December 2012 and the three months ended 31 March 2013, respectively, and approximately HK$3.2 million is expected to be charged for the three months ended 30 June 2013, assuming the Listing takes place on or before 30 June 2013.

UNAUDITED PRO FORMA ADJUSTED COMBINED NET TANGIBLE ASSETS

The following is an illustrative statement of unaudited pro forma adjusted combined net tangible assets of our Group attributable to owners of the Company, which has been prepared for the purpose of illustrating the effect of the Global Offering as if it had taken place on 31 December 2012. It is prepared based on our combined net assets of our Group attributable to owners of our Company as at 31 December 2012 as set out in the Accountants' Report in Appendix I to this prospectus, and adjusted as described below. The unaudited pro forma adjusted combined net tangible assets does not form part of the Accountants' Report in Appendix I to this prospectus. The pro forma adjusted combined net tangible assets have been prepared for illustrative purpose only, and because of its nature, it may not give a true picture of the financial positions of our Group had the Global Offering been completed as at 31 December 2012 or any future dates.

	Audited combined net tangible assets attributable to owners of our Company as at 31 December 2012(1)	**Estimated net proceeds from the Global Offering**(2)	**Unaudited pro forma adjusted combined net tangible assets**	**Unaudited pro forma adjusted combined net tangible assets per Share**(3)
	HK$'000	*HK$'000*	*HK$'000*	*HK$*
Based on an Offer Price of HK$1.51 per Share.	149,672	59,886	209,558	1.05
Based on an Offer Price of HK$2.13 per Share.	149,672	90,111	239,783	1.20

Notes:

1. The audited combined net tangible assets attributable to the owners of our Company as at 31 December 2012 were extracted from the Accountants' Report as set out in Appendix I to this prospectus.

2. The estimated net proceeds of our Company from the Global Offering are based on the indicative Offer Price range of HK$1.51 per Share and HK$2.13 per Share after deduction of the underwriting fees and other relevant expenses payable by our Company (assuming the Over-allotment is not exercised).

3. The unaudited pro forma adjusted combined net tangible assets per Share is arrived at after the adjustments referred to in the above paragraph and on the assumption of a total of 200,000,000 Shares, being the number of Shares in issue upon completion of the Global Offering (including Shares in issue as at the date of this prospectus and those Shares to be issued pursuant to the Global Offering, which takes no account of any Shares which may be issued pursuant to the exercise of the Over-allotment Option) were in issue.

4. By comparing the valuation of the property interests as set out in Appendix III to this prospectus, the net valuation surplus is approximately HK$56,925,000 as compared to the carrying amounts of our Group's property interests as at 30 April 2013, which has not been included in the above combined net tangible assets attributable to owners of our Company. The valuation surplus of the property interests will not be incorporated in our Group's consolidated financial statements in the future. If the valuation surplus were to be included in the consolidated financial statements, an additional annual depreciation charge of approximately HK$776,000 would be incurred.

5. Subsequent to 31 December 2012, a dividend of HK$20,000,000 has been declared by the Company. The above adjustment does not take into account the declaration of this dividend. Taking into account the estimated net proceeds from the Global Offering at the Offer Price of HK$1.51 per Share and HK$2.13 per Share and the dividend declared of HK$20,000,000, the unaudited pro forma adjusted combined net tangible assets per Share would have been approximately HK$0.95 per Share and HK$1.10 per Share, respectively.

PROPERTY INTERESTS

As at 30 April 2013, our property were revalued at HK$89.8 million by CBRE Limited, an independent property valuer. The full text of the letter, summary of valuation and valuation certificate with regard to such property interests are set out in Appendix III to this prospectus.

Disclosure of the reconciliation of the aggregate amounts of property interests from our audited consolidated financial statements as at 31 December 2012 to the unaudited net book value of our property interests as at 2013, as required under Rule 5.07 of the Listing Rules, is set out below:

	(HK$'000)
Net book value of property interest of our Group as at 31 December 2012	
— Buildings and land use rights	33,135
Movements during the four month ended 30 April 2013	
Add: Exchange difference	—
Less: Depreciation during the period	220
Net Book value as at 30 April 2013 (unaudited)	32,915
Valuation surplus as at 30 April 2013 (unaudited)	56,925
Valuation as at 30 April 2013 as per Appendix III to this prospectus	89,840

DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors have confirmed that as at the Latest Practicable Date, there were no circumstances which, had our Group been required to comply with Rules 13.13 to 13.19 of the Listing Rules, would have given rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

NO MATERIAL ADVERSE CHANGE

Our Directors have confirmed that, up to the Latest Practicable Date, there had been no material adverse change in the financial or trading position or prospects of our Group since 31 December 2012, and there had been no event since 31 December 2012 which would materially affect the information shown in the Accountants' Report set out in Appendix I to this prospectus, in each case except as otherwise disclosed herein.

Our Directors have also confirmed that there has not been any material change in our indebtedness and contingent liabilities since 31 December 2012.