The following is the text of a report, prepared for the purpose of incorporation in this prospectus, received from the independent reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong.

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28 June 2013

The Directors
S. Culture International Holdings Limited
RHB OSK Capital Hong Kong Limited

Dear Sirs,

We set out below our report on the financial information (the ''Financial Information'') relating to S. Culture International Holdings Limited (the ''Company'') and its subsidiaries (hereinafter collectively referred to as the ''Group'') for each of the three years ended 31 December 2012 (the ''Track Record Period'') for inclusion in the prospectus of the Company dated 28 June 2013 (the ''Prospectus'') in connection with the initial listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the ''Stock Exchange'') (the ''Listing'').

The Company was incorporated and registered as an exempted company in the Cayman Islands under the Companies Law, Cap22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands on 17 December 2012. Through a group reorganisation as more fully explained in the section headed ''History, Reorganisation and Group Structure'' in the Prospectus (the ''Group Reorganisation''), the Company has since 25 January 2013 become the holding company of the Group.

Particulars of the subsidiaries indirectly held by the Company, unless otherwise specified, at the end of each reporting period and the date of this report are as follows:

Name of subsidiary	Place and date of incorporation	Place of operation	Issued and fully paid share capital/ registered capital	Equity interest attributable to the Group as at 31 December 2010	2011	2012	Date of report	Principal activities
Advertiser's Media Agency Limited	Hong Kong 26 November 1996	Hong Kong	HK$10,000	100%	100%	100%	100%	Marketing and advertising of footwear products
Aiuti Company Limited (''Aiuti'')	Hong Kong 18 June 2004	N/A	HK$10,000	100%	100%	100%	— *(Note)*	Inactive
Cobblers Limited	Hong Kong 17 April 2000	Hong Kong	HK$10,000	100%	100%	100%	100%	Trading of footwear products
Cotteen Marketing Limited (''Cotteen Marketing'')	Hong Kong 26 November 1996	N/A	HK$10,000	100%	100%	100%	— *(Note)*	Inactive
Grand Asian Limited (''Grand Asian'')	Hong Kong 23 November 1995	Hong Kong	HK$1,000,000	100%	100%	100%	100%	Trading of footwear products
Grandasian Retails (BVI) Holdings Limited (''Grandasian Retail'')	British Virgin Islands (''BVI'') 13 December 2012	Hong Kong	US$1	N/A	N/A	100%	100%	Investment holding
Kong Tai Sundry Goods Company Limited (''Kong Tai Sundry Goods'')	Hong Kong 26 July 1974	Hong Kong/ Taiwan	HK$5,000,000	100%	100%	100%	100%	Trading of footwear products
Kong Tai Sundry Goods (BVI) Company Limited (''KTSG'')	BVI 13 December 2012	Hong Kong	US$1	N/A	N/A	100%	100%	Investment holding
KTS Properties Holdings Limited	BVI 13 December 2012	N/A	US$1	N/A	N/A	100%	100%	Inactive
Shoe Mart Company Limited	Hong Kong 18 January 2005	Hong Kong	HK$10,000	100%	100%	100%	100%	Trading of footwear products
Shoes Culture Company Limited	Macau 19 May 2004	Macau	MOP 25,000	100%	100%	100%	100%	Trading of footwear products
S. Culture Holdings (BVI) Limited (''S. Culture BVI'')*	BVI 18 December 2012	Hong Kong	US$2,000	N/A	N/A	100%	100%	Investment holding

* *Directly held by the Company*

Note: On 21 January 2013, Grand Asian disposed of the 100% equity interest in Aiuti and Cotteen Marketing to CN Fashion Limited (''CN Fashion''), which is 68.22% held by KTS International Holdings Inc. (''KTS International''), the Company's immediate holding company, for a total consideration of HK$41,000, resulting in nil gain or loss on disposal.

All of the above subsidiaries and the Company adopt 31 December as the financial year end date.

The statutory financial statements of the subsidiaries, other than those incorporated in the BVI, for the years ended 31 December 2010, 2011 and 2012 were prepared in accordance with the Hong Kong Financial Reporting Standards (''HKFRSs'') issued by the

Hong Kong Institute of Certified Public Accountants (the ''HKICPA'') and were audited by Lee, Sek, Chiu & Hui Certified Public Accountants, certified public accountants registered in Hong Kong.

No statutory audited financial statements have been prepared for the Company and its subsidiaries incorporated in the BVI as they were incorporated in jurisdictions where there are no statutory audit requirements. We have, however, reviewed all relevant transactions of the Company and its subsidiaries incorporated in the BVI since their respective date of incorporation to 31 December 2012 and carried out such procedures as we considered necessary for inclusion in the Financial Information.

For the purpose of this report, the directors of S. Culture BVI have prepared the consolidated financial statements of S. Culture BVI and its subsidiaries for the Track Record Period in accordance with HKFRSs issued by the HKICPA (the ''HKFRSs Financial Statements'') (together with the management accounts of the Company for the period from date of incorporation to 31 December 2012 are hereinafter referred to the ''Underlying Financial Statements''). We have carried out independent audit on the HKFRSs Financial Statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

We have examined the Underlying Financial Statements in accordance with the Auditing Guideline 3.340 ''Prospectuses and the reporting accountant'' as recommended by the HKICPA.

The Financial Information for the Track Record Period set out in this report has been prepared from the Underlying Financial Statements on the basis set out in note 1 to the Financial Information. No adjustment was considered necessary to the Underlying Financial Statements in preparing our report for inclusion in the Prospectus.

The Underlying Financial Statements are the responsibility of the directors of those companies who approved their issue. The directors of the Company are responsible for the contents of the Prospectus in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, on the basis of presentation set out in note 1 to the Financial Information, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of the Group as at 31 December 2010, 31 December 2011 and 31 December 2012 and of the Company as at 31 December 2012 and of the combined profits and cash flows of the Group for the Track Record Period.

(A) FINANCIAL INFORMATION

Combined Statements of Comprehensive Income

		Year ended 31 December		
		2010	2011	2012
	NOTES	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	7	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	8	446	378	626
Other (losses) gains	9	(977)	530	414
Selling and distribution costs		(111,056)	(152,553)	(188,144)
Administrative expenses		(82,019)	(105,631)	(104,880)
Finance costs	10	(1,508)	(1,666)	(1,747)
Listing expenses		—	—	(3,110)
Profit before taxation	11	22,224	37,591	30,122
Taxation	13	(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

Statements of Financial Position

		THE GROUP			THE COMPANY
		As at 31 December			As at 31 December
		2010	**2011**	**2012**	**2012**
	NOTES	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets					
Property, plant and equipment	16	43,071	49,718	51,403	—
Deferred tax assets	17	3,654	3,942	4,074	—
Rental deposits		8,101	18,224	16,625	—
		54,826	71,884	72,102	—
Current assets					
Inventories	18	90,537	94,517	125,852	—
Trade and other receivables	19	54,572	58,684	67,013	—
Amount due from immediate holding company	20	12,017	3,620	—	—
Amounts due from related companies	21	9,513	3,945	—	—
Amount due from a related party	25	—	527	1,630	—
Taxation recoverable		30	—	—	—
Bank balances and cash	22	19,471	32,448	28,028	—
		186,140	193,741	222,523	—
Current liabilities					
Trade and other payables	23	57,596	49,901	34,924	—
Amount due to immediate holding company	20	—	—	4,580	—
Amounts due to related companies	24	13,222	8,837	—	—
Amounts due to related parties	25	11,000	11,000	11,000	—
Taxation payable		3,169	4,147	1,392	—
Bank borrowings — due within one year	26	36,845	51,612	77,697	—
Obligations under finance leases — due within one year	27	133	—	—	—
		121,965	125,497	129,593	—

		THE GROUP			THE COMPANY
		As at 31 December			As at 31 December
		2010	2011	2012	2012
	NOTES	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Net current assets		64,175	68,244	92,930	—
Total assets less current liabilities		119,001	140,128	165,032	—
Non-current liabilities					
Bank borrowings — due after one year	26	17,968	16,000	15,360	—
Obligations under finance leases — due after one year	27	20	—	—	—
Deferred tax liabilities	17	54	—	—	—
		18,042	16,000	15,360	—
Net assets		100,959	124,128	149,672	—
Capital and reserves					
Share capital	28	6,000	6,000	16	—
Reserves		94,959	118,128	149,656	—
Total equity		100,959	124,128	149,672	—

Combined Statements of Changes In Equity

	Attributable to owners of the Company					
	Share capital *HK$'000*	Share premium *HK$'000*	Special reserve *HK$'000* *(Note)*	Translation reserve *HK$'000*	Accumulated profits *HK$'000*	Total *HK$'000*
At 1 January 2010	6,000	9,800	—	—	68,190	83,990
Profit for the year	—	—	—	—	18,085	18,085
Exchange differences arising on translation and other comprehensive income for the year	—	—	—	298	—	298
Total comprehensive income for the year	—	—	—	298	18,085	18,383
Dividends paid	—	—	—	—	(1,414)	(1,414)
At 31 December 2010	6,000	9,800	—	298	84,861	100,959
Profit for the year	—	—	—	—	31,502	31,502
Exchange differences arising on translation and other comprehensive expense for the year	—	—	—	(602)	—	(602)
Total comprehensive (expense) income for the year	—	—	—	(602)	31,502	30,900
Dividends paid	—	—	—	—	(7,731)	(7,731)
At 31 December 2011	6,000	9,800	—	(304)	108,632	124,128
Profit for the year	—	—	—	—	25,079	25,079
Exchange differences arising on translation and other comprehensive income for the year	—	—	—	465	—	465
Total comprehensive income for the year	—	—	—	465	25,079	25,544
Issue of shares on group reorganisation	16	—	(16)	—	—	—
Elimination on group reorganisation	(6,000)	(9,800)	15,800	—	—	—
At 31 December 2012	16	—	15,784	161	133,711	149,672

Note: The special reserve of the Group represents the difference between the nominal amount of the share capital and share premium of Kong Tai Sundry Goods and Grand Asian and the nominal amount of share capital of S. Culture BVI of HK$16,000 exchanged pursuant to the Group Reorganisation.

Combined Statements of Cash Flows

	Year ended 31 December		
	2010	**2011**	**2012**
	HK$'000	*HK$'000*	*HK$'000*
Operating activities			
Profit before taxation	22,224	37,591	30,122
Adjustments for:			
Interest income	(1)	(2)	(15)
Interest expenses	1,508	1,666	1,747
Allowance for doubtful debts	91	21	—
Allowance for (reversal of allowance for) inventories	1,848	5,180	(4,635)
Depreciation of property, plant and equipment	5,997	7,530	10,760
Loss (gain) on disposal of property, plant and equipment	370	(427)	1
Operating cash flows before movements in working capital	32,037	51,559	37,980
Decrease (increase) in inventories	3,696	(9,160)	(26,700)
Increase in trade and other receivables	(11,436)	(6,836)	(2,538)
Increase in rental deposits	(2,609)	(7,420)	(4,192)
Increase (decrease) in trade and other payables	30,020	(9,863)	(12,477)
Cash generated from (used in) operations	51,708	18,280	(7,927)
Hong Kong Profits Tax paid	(1,945)	(4,985)	(7,363)
Tax paid in other jurisdictions	—	(421)	(567)
Net cash from (used in) operating activities	49,763	12,874	(15,857)
Investing activities			
Repayments from immediate holding company	499	8,397	3,620
Proceeds from disposal of property, plant and equipment	149	782	—
Interest received	1	2	15
Purchase of property, plant and equipment	(31,057)	(14,745)	(12,196)
Advances to related companies	(6,313)	—	—
Advances to immediate holding company	(3,993)	—	—
Repayments from related companies	—	5,568	3,945
Advance to a related party	—	(527)	(1,103)
Net cash used in investing activities	(40,714)	(523)	(5,719)

	Year ended 31 December		
	2010	2011	2012
	HK$'000	*HK$'000*	*HK$'000*
Financing activities			
New bank loans raised	37,206	43,196	74,372
Advance from related parties	5,000	—	—
Advances from related companies	2,818	—	—
Repayments of bank borrowings	(41,129)	(30,397)	(48,927)
Repayments to immediate holding company	(1,790)	—	—
Interest paid	(1,486)	(1,661)	(1,747)
Repayments of obligations under finance leases	(170)	(153)	—
Finance lease charges paid	(22)	(5)	—
Dividends paid	—	(5,563)	(2,500)
Repayments to related companies	—	(4,385)	(8,837)
Advance from immediate holding company	—	—	4,580
Net cash from financing activities	427	1,032	16,941
Net 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 equivalents at end of the year, representing bank balances and cash	19,471	32,448	28,028

Notes to Financial Information

1. GROUP REORGANISATION AND BASIS OF PRESENTATION OF FINANCIAL INFORMATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 17 December 2012 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

The addresses of the registered office and principal place of business of the Company are set out in the section headed ''Corporate Information'' to the Prospectus.

The companies now comprising the Group underwent a series of reorganisation in the preparation of the Listing. Before the completion of the Group Reorganisation, Kong Tai Sundry Goods and Grand Asian were wholly and directly owned by CN Fashion. To streamline the shareholding in the group entities, on 28 December 2012, KTSG and Grandasian Retail acquired the entire issued share capital of Kong Tai Sundry Goods and Grand Asian (the ''First Transfer'') in consideration of the allotment of 2,000 shares of US$1 each to S. Culture BVI and then S. Culture BVI allotted and issued 2,000 shares of US$1 each to CN Fashion. To further effect the Group Reorganisation as set out in section headed ''History, Reorganisation and Group Structure'' in the Prospectus, on 25 January 2013, the Company acquired the entire issued share capital of S. Culture BVI from CN Fashion (the ''Second Transfer'') in consideration of the allotment of 9,999 shares of HK$0.01 each to CN Fashion. Upon completion of the Second Transfer, the Company became the holding company of the Group as at 25 January 2013. The shares in the Company held by CN Fashion were then distributed in specie to its shareholders on 25 January 2013 and KTS International, a major shareholder of CN Fashion, became the immediate holding company of the Company on the same date.

The Group resulting from the Group Reorganisation, which involves interspersing the Company and various investment holding companies between Kong Tai Sundry Goods, Grand Asian and the shareholders of CN Fashion, is regarded as a continuing entity. Accordingly, the combined statements of comprehensive income and cash flows for the Track Record Period have been prepared to present the results and cash flows of the companies now comprising the Group, as if the group structure upon the completion of the Group Reorganisation had been in existence throughout the Track Record Period, or since their respective dates of incorporation where this is a shorter period. The combined statements of financial position of the Group as at 31 December 2010, 31 December 2011 and 31 December 2012 have been prepared to present the assets and liabilities of the companies now comprising the Group as if the current group structure had been in existence at those dates.

The Financial Information is presented in Hong Kong dollars (''HK$''), which is the functional currency of the Company.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

The HKICPA has issued a number of new and revised Hong Kong Accounting Standards (''HKASs''), HKFRSs, amendments and interpretations (''INTs'') (hereinafter collectively referred to as the ''new and revised HKFRSs'') which are effective for the Group's accounting periods beginning on 1 January 2012. For the purpose of preparing and presenting the Financial Information for the Track Record Period, the Group has adopted all these new and revised HKFRSs consistently throughout the Track Record Period.

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

Amendments to HKFRSs	Annual improvements to HKFRSs 2009 — 2011 cycle[1]
Amendments to HKFRS 1	Government loans[1]
Amendments to HKFRS 7	Disclosures — Offsetting financial assets and financial liabilities[1]
Amendments to HKFRS 9 and HKFRS 7	Mandatory effective date of HKFRS 9 and transition disclosures[2]
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated financial statements, joint arrangements and disclosure of interests in other entities: Transition guidance[1]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment entities[4]
HKFRS 9	Financial instruments[2]
HKFRS 10	Consolidated financial statements[1]
HKFRS 11	Joint arrangements[1]
HKFRS 12	Disclosure of interests in other entities[1]
HKFRS 13	Fair value measurement1
Amendments to HKAS 1	Presentation of items of other comprehensive income[3]
HKAS 19 (as revised in 2011)	Employee benefits[1]
HKAS 27 (as revised in 2011)	Separate financial statements[1]
HKAS 28 (as revised in 2011)	Investments in associates and joint ventures[1]
Amendments to HKAS 32	Offsetting financial assets and financial liabilities[4]
Amendments to HKAS 36	Recoverable amount disclosures for non-financial assets[4]
HK(IFRIC) — INT 20	Stripping costs in the production phase of a surface mine[1]
HK(IFRIC) — INT 21	Levies[4]

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

Amendments to HKAS 32 ''Offsetting financial assets and financial liabilities'' and amendments to HKFRS 7 ''Disclosures — Offsetting financial assets and financial liabilities''

The amendments to HKAS 32 clarify existing application issues relating to the offsetting requirements. Specifically, the amendments clarify the meaning of ''currently has a legally enforceable right of set-off'' and ''simultaneous realisation and settlement''.

The amendments to HKFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

The amended offsetting disclosures are required for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The disclosures should also be provided retrospectively for all comparative periods. However, the amendments to HKAS 32 are not effective until annual periods beginning on or after 1 January 2014, with retrospective application required.

The directors of the Company anticipate that the application of amendments to HKAS 32 and amendments to HKFRS 7 by the Group will not have significant impact on the amounts reported in respect of the Group's financial assets and financial liabilities based on the Group's financial assets and financial liabilities reported at the end of the Track Record Period.

HKFRS 9 ''Financial instruments''

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of HKFRS 9 are described as follows:

- HKFRS 9 requires all recognised financial assets that are within the scope of HKAS 39 ''Financial instruments: Recognition and measurement'' to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the presentation of changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

The directors of the Company anticipate that the application of HKFRS 9 for annual period beginning 1 January 2015 will not have significant impact on the amounts reported in respect of the Group's financial assets and financial liabilities based on the Group's financial instruments reported at the end of the Track Record Period.

Amendments to HKAS 1 "Presentation of items of other comprehensive income"

The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

The amendments to HKAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods. This standard will be adopted for annual period beginning 1 January 2013.

The directors of the Company anticipate that the application of other new and revised HKFRSs will have no material impact on the Financial Information.

3. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared on the historical cost basis, and in accordance with the following accounting policies which conform to HKFRSs issued by the HKICPA. In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

Basis of combination

The Financial Information incorporates the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the Track Record Period are included in the combined statements of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, incomes and expenses are eliminated on combination.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold or services 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:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains 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 the 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 the 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.

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-line 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 term 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.

The Group as lessee

Assets held under finance leases are recognised as assets of the 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 the Group's policy on borrowing costs (see the accounting policy below). 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, the 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 the 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.

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.

Financial instruments

Financial assets and financial liabilities are recognised in the statements of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Group's financial assets are mainly classified into loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

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 (see accounting policy on impairment of financial assets below).

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 the 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.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by group entities are recognised at the proceeds received, net of direct issue costs.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis for debt instruments.

Financial liabilities

Financial liabilities including trade and other payables, amount due to immediate holding company, amounts due to related companies, amounts due to related parties and bank borrowings are subsequently measured at amortised cost, using the effective interest method.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Impairment

At the end of the reporting period, the 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.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the Financial Information, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. HK$) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve. Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Retirement benefit costs

Payments to government-managed retirement benefit schemes and the Mandatory Provident Fund Scheme are recognised as an expense when employees have rendered service entitling them to the contributions.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the combined statements of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Financial Information and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Estimated impairment loss recognised on trade receivables

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise.

As at 31 December 2010, 31 December 2011 and 31 December 2012, the carrying amounts of trade receivables are HK$39,521,000, HK$49,933,000 and HK$49,441,000 (net of allowance for doubtful debts of HK$97,000, HK$113,000 and HK$119,000), respectively.

Estimated impairment loss of inventories

The Group makes allowance for inventories based on an assessment of the net realisable value of inventories. Allowances are applied to inventories where events or changes in circumstances indicate that the net realisable value is lower than the cost of inventories. The identification of obsolete inventories requires the use of judgment and estimates on the conditions and marketability of the inventories. Where the subsequent selling prices decline or there is increase in costs of completion and those necessary to make the sales, additional allowance may arise.

The carrying amounts of inventories at 31 December 2010, 31 December 2011 and 31 December 2012 are HK$90,537,000, HK$94,517,000 and HK$125,852,000 (net of allowance for inventories of HK$1,848,000, HK$7,028,000 and HK$2,393,000, respectively).

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that the group entities will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged throughout the Track Record Period.

The capital structure of the Group consists of net debt, which includes the bank borrowings disclosed in note 26, net of cash and cash equivalents and equity attributable to owners of the Company, comprising share capital and reserves.

The management of the Group reviews the capital structure regularly. As part of this review, the management considers the cost of capital and the risks associated with each class of capital, and will balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt.

6. FINANCIAL INSTRUMENTS

Categories of financial instruments

	As at 31 December		
	2010	**2011**	**2012**
	HK$'000	*HK$'000*	*HK$'000*
Financial assets			
Loans and receivables			
(including cash and cash equivalents)	82,294	91,731	82,358
Financial liabilities			
Amortised cost	107,274	100,433	121,549

Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, amount due from (to) immediate holding company, amounts due from related companies, amount due from a related party, bank balances and cash, trade and other payables, amounts due to related companies, amounts due to related parties, bank borrowings and obligations under finance leases. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Currency Risk

The carrying amount of the foreign currency denominated monetary assets of the group entities are mainly bank balances and cash as disclosed in note 22. The directors of the Company considered that the Group's exposure on foreign currency risk is insignificant, accordingly no sensitivity analysis has been presented. The management continuously monitors the foreign exchange exposure and will consider hedging foreign currency risk should the need arise.

Interest rate risk

The Group is exposed to cash flow interest rate risk in relation to bank balances, amounts due to related parties and bank borrowings (see notes 22, 25 and 26 for details of these balances). The 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. The Group currently does not have a policy on cash flow hedges of interest rate risk. However, the management monitors interest rate exposure and will consider hedging significant interest rate risk should the need arise.

Sensitivity analysis

The sensitivity analysis below have been determined based on the exposure to interest rates for bank borrowings and amounts due to related parties. The analysis is prepared assuming that the amount of liabilities outstanding at the end of each reporting period were outstanding for the whole year. 50 basis point increase or decrease represent the management's assessment of the reasonably possible change in interest rates of bank borrowings and amounts due to related parties. No sensitivity analysis is presented for bank balances as the directors of the Company considered the Group's exposure to cash flow interest rate risk is not material.

If interest rates on bank borrowings and amounts due to related parties had been 50 basis points higher/lower and all other variables were held constant, the potential effect on the Group's post-tax profit for the years ended 31 December 2010, 2011 and 2012 is as follows:

	Year ended 31 December		
	2010	2011	2012
	HK$'000	*HK$'000*	*HK$'000*
(Decrease) increase in profit for the year			
— as a result of increase in interest rate	(274)	(327)	(424)
— as a result of decrease in interest rate	274	327	434

In the management's opinion, the sensitivity analysis is unrepresentative of the inherent interest rate risk as the year end exposures do not reflect the exposures during the year.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2010, 31 December 2011 and 31 December 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.

In order to minimise the credit risk, the management of the Group has 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, the Group reviews the recoverable amount of each individual trade receivable at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group has no significant concentration of credit risk on trade receivables, with exposure spread over a number of counterparties.

The Group has concentration of credit risk in relation to amount due from immediate holding company of HK$12,017,000 and HK$3,620,000 and amounts due from related companies of HK$9,513,000 and HK$3,945,000 as at 31 December 2010 and 31 December 2011, with details set out in notes 20 and 21, respectively. The management considers the credit risk is not significant as the counterparties are of sound financial position. These balances were fully repaid during the year ended 31 December 2012.

The credit risk for bank deposits is considered minimal as such amounts are placed in banks with high credit ratings.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. Specifically, bank loans with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity date for other non-derivative financial liabilities are based on the agreed repayment dates.

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from the interest rate at the end of each reporting period.

Liquidity and interest risk tables

	Weighted average interest rate	On demand or less than 1 year	1 to 2 years	2–5 years	Over 5 years	Total undiscounted cash flows	Carrying amounts
	%	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 31 December 2010							
Trade and other payables	N/A	28,086	—	—	—	28,086	28,086
Amounts due to related companies	N/A	13,222	—	—	—	13,222	13,222
Amounts due to related parties	5.00	11,000	—	—	—	11,000	11,000
Bank borrowings — variable rate	1.74	37,145	1,571	4,117	14,847	57,680	54,813
Obligations under finance leases	4.25	139	21	—	—	160	153
		89,592	1,592	4,117	14,847	110,148	107,274
At 31 December 2011							
Trade and other payables	N/A	12,984	—	—	—	12,984	12,984
Amounts due to related companies	N/A	8,837	—	—	—	8,837	8,837
Amounts due to related parties	5.00	11,000	—	—	—	11,000	11,000
Bank borrowings — variable rate	1.89	52,842	1,487	3,929	12,637	70,895	67,612
		85,663	1,487	3,929	12,637	103,716	100,433
At 31 December 2012							
Trade and other payables	N/A	12,912	—	—	—	12,912	12,912
Amount due to immediate holding company	N/A	4,580	—	—	—	4,580	4,580
Amounts due to related parties	5.00	11,000	—	—	—	11,000	11,000
Bank borrowings — variable rate	2.26	79,770	1,560	4,096	11,693	97,119	93,057
		108,262	1,560	4,096	11,693	125,611	121,549

Bank loans with a repayment on demand clause are included in the ''on demand or less than 1 year'' time band in the above maturity analysis. As at 31 December 2010, 31 December 2011 and 31 December 2012, the aggregate principal amounts of these bank loans amounted to HK$10,883,000, HK$3,500,000 and HK$1,500,000, respectively. Taking into account the Group's financial position, the directors of the Company do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The directors of the Company believe that such bank loans will be repaid in accordance with the scheduled repayment dates set out in the loan agreements and the principal and interest cash outflows according to the scheduled repayment dates are set out as follows:

	Weighted average interest rate	On demand or less than 1 year	1–2 years	2–5 years	Over 5 years	Total undiscounted cash flows	Carrying amounts
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Bank borrowings							
At 31 December 2010	2.37	258	6,308	4,950	—	11,516	10,883
At 31 December 2011	2.47	86	2,086	1,537	—	3,709	3,500
At 31 December 2012	2.47	37	1,537	—	—	1,574	1,500

The amounts included above for variable interest rate instruments for non-derivative financial liabilities are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

7. REVENUE AND SEGMENT INFORMATION

The Group's operating activities are attributable to operating segments focusing on retail sales and wholesale of footwear products. These operating segments have been identified on the basis of internal management reports prepared in accordance with accounting policies conform to HKFRSs, that are regularly reviewed by the executive directors of the Company, the chief operating decision maker of the Group. The executive directors of the Company regularly review revenue and results analysis by (i) retail sales and (ii) wholesale. No analysis of segment assets or segment liabilities is presented as they are not regularly provided to the executive directors of the Company.

- Retail sales: Retail sales channel refers to sales at the self-operated concession counters in department stores and self-operated retail stores.

- Wholesale: Wholesale refers to the sales to wholesale customers who resell the products to end-user consumers, typically at retail stores operated by wholesale customers.

The information of operating and reportable segments is as follows:

Segment revenue and results

For the year ended 31 December 2010

	Retail sales	Wholesale	Segment total	Elimination	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
REVENUE					
External sales	305,154	60,692	365,846	—	365,846
Inter-segment sales	—	125,718	125,718	(125,718)	—
Segment revenue	305,154	186,410	491,564	(125,718)	365,846
Segment results	15,189	11,754	26,943	—	26,943
Unallocated income					1
Unallocated expenses					(3,212)
Finance costs					(1,508)
Profit before taxation					22,224

For the year ended 31 December 2011

	Retail sales	Wholesale	Segment total	Elimination	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
REVENUE					
External sales	403,638	68,805	472,443	—	472,443
Inter-segment sales	—	175,752	175,752	(175,752)	—
Segment revenue	403,638	244,557	648,195	(175,752)	472,443
Segment results	27,777	18,484	46,261	—	46,261
Unallocated income					2
Unallocated expenses					(7,006)
Finance costs					(1,666)
Profit before taxation					37,591

For the year ended 31 December 2012

	Retail sales	Wholesale	Segment total	Elimination	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
REVENUE					
External sales	441,968	63,321	505,289	—	505,289
Inter-segment sales	—	195,025	195,025	(195,025)	—
Segment revenue	441,968	258,346	700,314	(195,025)	505,289
Segment results	8,425	21,001	29,426	—	29,426
Unallocated income					7,092
Unallocated expenses					(4,649)
Finance costs					(1,747)
Profit before taxation					30,122

Inter-segment sales are charged at prevailing market rates.

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment results represents the profit earned from each segment without allocation of central administration costs allowance for (reversal of allowance for) inventories, write-back of other payables, listing expenses, interest income and finance costs. This is the measure reported to the executive directors of the Company for the purpose of resource allocation and performance assessment.

Other segment information

For the year ended 31 December 2010

	Retail sales	Wholesale	Unallocated	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Amounts included in measure of segment results:				
Depreciation	3,887	2,110	—	5,997
Loss on disposal of property, plant and equipment	40	330	—	370
Amounts regularly provided to the chief operating decision makers of the Group but not included in the measure of segment results:				
Allowance for inventories *(Note)*	—	—	1,848	1,848

For the year ended 31 December 2011

	Retail sales HK$'000	Wholesale HK$'000	Unallocated HK$'000	Total HK$'000
Amounts included in measure of segment results:				
Depreciation	4,867	2,663	—	7,530
Gain on disposal of property, plant and equipment	—	(427)	—	(427)
Amounts regularly provided to the chief operating decision makers of the Group but not included in the measure of segment results:				
Allowance for inventories *(Note)*	—	—	5,180	5,180

For the year ended 31 December 2012

	Retail sales HK$'000	Wholesale HK$'000	Unallocated HK$'000	Total HK$'000
Amounts included in measure of segment results:				
Depreciation	7,765	2,995	—	10,760
Loss on disposal of property, plant and equipment	1	—	—	1
Amounts regularly provided to the chief operating decision makers of the Group but not included in the measure of segment results:				
Listing expenses	—	—	3,110	3,110
Reversal of allowance for inventories *(Note)*	—	—	(4,635)	(4,635)

Note: Allowance for (reversal of allowance for) inventories were unallocated as the directors of the Company considered that these amounts are attributable to the Group as a whole.

Revenue by major brands

The following is an analysis of the Group's revenue by brands:

	Year ended 31 December		
	2010	**2011**	**2012**
	HK$'000	*HK$'000*	*HK$'000*
Clarks	295,993	400,853	404,434
Josef Seibel	21,391	43,452	67,164
Flexx	—	5,954	9,558
Yokono and Yokono K	—	—	1,382
Others	48,462	22,184	22,751
	365,846	472,443	505,289

Geographical information

Information about the Group's revenue from external customers is presented based on the location of the respective group entities' operations:

	Year ended 31 December		
	2010	**2011**	**2012**
	HK$'000	*HK$'000*	*HK$'000*
Hong Kong	330,655	369,834	393,516
Taiwan	24,180	88,267	96,989
Macau	11,011	14,342	14,784
	365,846	472,443	505,289

Information about the Group's non-current assets (excluding deferred tax assets) is presented based on the location of the assets:

	As at 31 December		
	2010	**2011**	**2012**
	HK$'000	*HK$'000*	*HK$'000*
Hong Kong	26,151	36,750	38,701
Taiwan	24,150	29,742	29,133
Macau	871	1,450	194
	51,172	67,942	68,028

Information about major customers

No individual customer accounted for over 10% of the Group's total revenue during the Track Record Period.

8. OTHER INCOME

	Year ended 31 December		
	2010	2011	2012
	HK$'000	*HK$'000*	*HK$'000*
Commission income	259	125	176
Interest income	1	2	15
Management fee income	126	126	226
Others	60	125	209
	446	378	626

9. OTHER (LOSSES) GAINS

	Year ended 31 December		
	2010	2011	2012
	HK$'000	*HK$'000*	*HK$'000*
Allowance for doubtful debts	(91)	(21)	—
(Loss) gain on disposal of property, plant and equipment	(370)	427	(1)
Net exchange (loss) gain	(516)	124	415
	(977)	530	414

10. FINANCE COSTS

	Year ended 31 December		
	2010	2011	2012
	HK$'000	*HK$'000*	*HK$'000*
Interest on:			
Amounts due to related parties	469	550	550
Bank borrowings wholly repayable:			
— within five years	998	646	892
— after five years	19	465	305
Finance leases obligations	22	5	—
	1,508	1,666	1,747

11. PROFIT BEFORE TAXATION

	Year ended 31 December		
	2010	**2011**	**2012**
	HK$'000	*HK$'000*	*HK$'000*
Profit before taxation has been arrived at after charging (crediting):			
Directors' remuneration *(Note 12)*	8,590	16,463	7,214
Other staff costs	50,276	65,793	71,742
Retirement benefit schemes contributions for other staff	2,032	2,945	3,270
Total staff costs	60,898	85,201	82,226
Auditor's remuneration	279	337	333
Allowance for (reversal of allowance for) inventories (included in costs of goods sold) *(Note a)*	1,848	5,180	(4,635)
Cost of inventories recognised as expenses	148,508	175,910	178,326
Depreciation of property, plant and equipment			
— owned assets	5,925	7,530	10,760
— leased assets	72	—	—
	5,997	7,530	10,760
Operating lease rentals in respect of			
— rented premises (minimum lease payments)	788	699	833
— retail stores (included in selling and distribution costs)			
— minimum lease payments	60,345	75,244	106,369
— contingent rent *(note b)*	3,128	2,757	2,069
	63,473	78,001	108,438
— department store counters (including concessionaire commission) (included in selling and distribution costs)			
— minimum lease payments	5,702	3,698	8,782
— contingent rent *(note b)*	22,670	39,284	41,139
	28,372	42,982	49,921
	92,633	121,682	159,192

Notes:

(a) During the year ended 31 December 2012, certain obsolete inventories were sold to customers at original cost or above and resulted in a reversal of allowance amounting to HK$4,635,000.

(b) The contingent rent refers to the operating lease rentals based on pre-determined percentages to realised sales less basic rentals of the respective leases.

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

	Fees	Salaries and allowances	Performance related incentive payments	Retirement benefit schemes contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
For the year ended 31 December 2010					
Mr. Chu Siu Ming	—	2,590	1,310	77	3,977
Mr. Chu Chun Ho, Dominic	225	295	286	14	820
Mr. Chu Chun Wah, Haeta	225	1,473	1,152	43	2,893
Mr. Chong Hot Hoi	450	—	—	—	450
Mr. Chong Hok Hei, Charles	225	—	—	—	225
Mr. Yu Fuk Lun	225	—	—	—	225
	1,350	4,358	2,748	134	8,590
For the year ended 31 December 2011					
Mr. Chu Siu Ming	—	2,923	4,711	84	7,718
Mr. Chu Chun Ho, Dominic	450	1,664	606	77	2,797
Mr. Chu Chun Wah, Haeta	450	1,642	2,010	46	4,148
Mr. Chong Hot Hoi	900	—	—	—	900
Mr. Chong Hok Hei, Charles	450	—	—	—	450
Mr. Yu Fuk Lun	450	—	—	—	450
	2,700	6,229	7,327	207	16,463
For the year ended 31 December 2012					
Mr. Chu Siu Ming	—	3,334	—	93	3,427
Mr. Chu Chun Ho, Dominic	—	1,766	—	82	1,848
Mr. Chu Chun Wah, Haeta	—	1,887	—	52	1,939
Mr. Chong Hot Hoi	—	—	—	—	—
Mr. Chong Hok Hei, Charles	—	—	—	—	—
Mr. Yu Fuk Lun	—	—	—	—	—
	—	6,987	—	227	7,214

No emoluments was paid or payable to the independent non-executive directors, namely Mr. Wan Kam To, Mr. Yau Tat Wang, Dennis and Mr. Lam Man Tin, during the Track Record Period. The independent non-executive directors were appointed by the Company on 1 May 2013.

(b) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, 3, 3 and 3 were directors of the Company for the years ended 31 December 2010, 2011 and 2012, respectively, whose emoluments are included in the disclosures above. The emoluments of the remaining 2, 2 and 2 individuals were as follows:

	Year ended 31 December		
	2010	**2011**	**2012**
	HK$'000	*HK$'000*	*HK$'000*
Employees			
— salaries and allowances	2,011	2,580	1,815
— performance related incentive payments	585	994	—
— retirement benefit schemes contributions	72	77	84
	2,668	3,651	1,899

Their emoluments were within the following bands:

	Number of employees		
	2010	**2011**	**2012**
Up to HK$1,000,000	—	—	1
HK$1,000,001 to HK$1,500,000	2	—	1
HK$1,500,001 to HK$2,000,000	—	2	—

During the Track Record Period, no emoluments were paid by the Group to the directors of the Company or the five highest paid individuals (including directors and employees), as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors waived any emoluments during the Track Record Period.

13. TAXATION

	Year ended 31 December		
	2010	**2011**	**2012**
	HK$'000	*HK$'000*	*HK$'000*
Current tax			
Hong Kong	4,303	5,721	4,811
Taiwan income tax	266	597	204
Macau Complementary Tax	—	118	160
	4,569	6,436	5,175
Overprovision in prior years			
Hong Kong	—	(5)	—
	—	(5)	—
Deferred taxation *(Note 17)*	(430)	(342)	(132)
	4,139	6,089	5,043

The Company was incorporated in the Cayman Islands, together with those group entities incorporated in the BVI are not subject to any income tax.

Hong Kong Profits Tax is calculated at 16.5% on the estimated assessable profit for the Track Record Period.

Taiwan income tax is calculated at 17% on the estimated assessable profit of a branch of Kong Tai Sundry Goods in Taiwan for the Track Record Period.

Macau Complementary Tax is calculated at progressive rates ranging from 9% to 12% on the estimated assessable profit for the Track Record Period.

The taxation charge for the Track Record Period can be reconciled to the profit before taxation per the combined statements of comprehensive income as follows:

	Year ended 31 December		
	2010	**2011**	**2012**
	HK$'000	*HK$'000*	*HK$'000*
Profit before taxation	22,224	37,591	30,122
Tax at Hong Kong Profits Tax rate of 16.5%	3,667	6,203	4,970
Tax effect of expenses not deductible for tax purposes	239	197	560
Tax effect of income not taxable for tax purposes	—	(160)	(342)
Tax effect of tax losses not recognised	—	—	213
Effect of different tax rate of subsidiaries operating in other jurisdictions	9	15	4
Overprovision in prior years	—	(5)	—
Others	224	(161)	(362)
Taxation charge	4,139	6,089	5,043

14. DIVIDENDS

No dividend has been declared or paid by the Company since its date of incorporation. However, during the Track Record Period, Grand Asian and Kong Tai Sundry Goods made the following distributions to CN Fashion:

	Year ended 31 December		
	2010	**2011**	**2012**
	HK$'000	*HK$'000*	*HK$'000*
Dividends declared to CN Fashion during the Track Record Period and dividends attributable to owners of the Company	1,414	7,731	—

The rate of dividends and the number of shares ranking for the above dividends are not presented as such information is not considered meaningful having regard to the purpose of this report.

15. EARNINGS PER SHARE

No earnings per share information is presented as its inclusion, for the purpose of this report, is not considered meaningful with regard to the Group Reorganisation and the results for the Track Record Period that is on a combined basis as set out in note 1.

16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings *HK$'000*	Leasehold improvements *HK$'000*	Furniture, fixtures and equipment *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
THE GROUP					
COST					
At 1 January 2010	19,111	12,922	3,518	1,733	37,284
Exchange adjustments	—	122	13	—	135
Additions	21,477	6,658	1,519	1,403	31,057
Disposals	—	(1,469)	(1,063)	(396)	(2,928)
At 31 December 2010	40,588	18,233	3,987	2,740	65,548
Exchange adjustments	—	(234)	(37)	(10)	(281)
Additions	—	11,468	1,869	1,408	14,745
Disposals	—	(2,280)	(376)	(1,337)	(3,993)
At 31 December 2011	40,588	27,187	5,443	2,801	76,019
Exchange adjustments	—	281	46	9	336
Additions	—	10,436	1,760	—	12,196
Disposals	—	(2,370)	(216)	—	(2,586)
At 31 December 2012	40,588	35,534	7,033	2,810	85,965
DEPRECIATION					
At 1 January 2010	5,621	10,253	1,790	1,203	18,867
Exchange adjustments	—	21	1	—	22
Provided for the year	512	3,520	1,466	499	5,997
Eliminated on disposals	—	(1,404)	(632)	(373)	(2,409)
At 31 December 2010	6,133	12,390	2,625	1,329	22,477
Exchange adjustments	—	(62)	(5)	(1)	(68)
Provided for the year	660	5,005	1,159	706	7,530
Eliminated on disposals	—	(2,280)	(376)	(982)	(3,638)
At 31 December 2011	6,793	15,053	3,403	1,052	26,301
Exchange adjustments	—	77	7	2	86
Provided for the year	660	8,209	1,385	506	10,760
Eliminated on disposals	—	(2,370)	(215)	—	(2,585)
At 31 December 2012	7,453	20,969	4,580	1,560	34,562
CARRYING VALUES					
At 31 December 2010	34,455	5,843	1,362	1,411	43,071
At 31 December 2011	33,795	12,134	2,040	1,749	49,718
At 31 December 2012	33,135	14,565	2,453	1,250	51,403

The Group's leasehold land and buildings are situated on land:

	As at 31 December		
	2010	**2011**	**2012**
	HK$'000	*HK$'000*	*HK$'000*
In Hong Kong:			
Long lease	826	814	801
Medium-term lease	12,301	11,950	11,600
In Taiwan:			
Long lease	21,328	21,031	20,734
	34,455	33,795	33,135

Depreciation is provided to write off the cost of items of property, plant and equipment less their residual values over their estimated useful lives, using the straight-line method or reducing balance method at the following rates per annum:

Leasehold land	Over the term of lease on straight-line method
Buildings	Over the shorter of the term of lease or 2% on straight-line method
Leasehold improvements	Over the shorter of the term of the lease or 25%–$33^1/_3$% on straight-line method
Furniture, fixtures and equipment	$33^1/_3$%–50% on straight-line method
Motor vehicles	30% on reducing balance method

As at 31 December 2010, the carrying values of motor vehicles included an amount of HK$169,000 in respect of assets held under finance leases. No property, plant and equipment were held under finance leases as at 31 December 2011 and 31 December 2012.

17. DEFERRED TAXATION

The followings are the major deferred tax assets (liabilities) recognised and movements thereon during the Track Record Period:

	Accelerated tax depreciation	**Others**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
THE GROUP			
At 1 January 2010	3,154	19	3,173
Credit (charge) to profit or loss *(Note 13)*	480	(50)	430
Exchange adjustments	—	(3)	(3)
At 31 December 2010	3,634	(34)	3,600
Credit to profit or loss *(Note 13)*	288	54	342
At 31 December 2011	3,922	20	3,942
Credit to profit or loss *(Note 13)*	110	22	132
At 31 December 2012	4,032	42	4,074

The following is the analysis of the deferred tax balances for financial reporting purposes:

	As at 31 December		
	2010	2011	2012
	HK$'000	*HK$'000*	*HK$'000*
Deferred tax assets	3,654	3,942	4,074
Deferred tax liabilities	(54)	—	—
	3,600	3,942	4,074

As at 31 December 2010, 31 December 2011 and 31 December 2012, the Group has unutilised tax losses of HK$117,000, HK$117,000 and HK$1,408,000 available for offset against future profits. A deferred tax asset has been recognised in respect of HK$117,000, HK$117,000 and HK$117,000, respectively. No deferred tax asset has been recognised in respect of nil, nil and HK$1,291,000 due to unpredictability of future profit streams as at 31 December 2010, 31 December 2011 and 31 December 2012, respectively. All the unrecognised tax loss may be carried forward indefinitely.

18. INVENTORIES

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

19. TRADE AND OTHER RECEIVABLES

	As at 31 December		
	2010	2011	2012
	HK$'000	*HK$'000*	*HK$'000*
THE GROUP			
Trade receivables	29,278	35,861	36,293
Bills receivables	10,340	14,185	13,267
Less: Allowance for doubtful debts	(97)	(113)	(119)
	39,521	49,933	49,441
Deposits	9,653	6,772	12,823
Prepayments	4,287	1,787	2,691
Other receivables	1,111	192	2,058
	15,051	8,751	17,572
Total trade and other receivables	54,572	58,684	67,013

Retail sales are made at retail shops and concession counters in department stores. The department stores collect payments from the ultimate customers and then repay the balance after deducting the concessionaire commission to the Group. The credit period granted to department stores range from 30–60 days. Sales made at retail shops are settled by cash or credit cards. For wholesale, the Group allows a credit period range from 30–60 days to its trade customers. The following is an aged analysis of trade and bills receivables net of allowance for doubtful debts presented based on the invoice date at the end of each reporting period.

	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
	39,521	49,933	49,441

For sales by wholesale, before accepting any new customer, the Group will check the historical default records of these customers through external source.

The management of the Group closely monitors the credit quality of trade receivables and considers the debtors that are neither past due nor impaired to be of a good credit quality. Included in the Group's trade receivable balance are debtors with aggregate carrying amount of HK$5,770,000, HK$7,452,000 and HK$5,897,000 as at 31 December 2010, 31 December 2011 and 31 December 2012, respectively which are past due as at the end of the reporting period for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances.

The following is an aged analysis of trade receivables based on the invoice date which are past due but not impaired at the end of each reporting period.

	As at 31 December		
	2010	2011	2012
	HK$'000	*HK$'000*	*HK$'000*
61 to 90 days	3,674	3,687	3,893
Over 90 days	2,096	3,765	2,004
	5,770	7,452	5,897

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there were no history of default.

Based on the historical experience of the Group, trade receivables that are past due but not impaired are generally recoverable.

Movement in the allowance for doubtful debts

	As at 31 December		
	2010	2011	2012
	HK$'000	*HK$'000*	*HK$'000*
Balance at beginning of the year	—	(97)	(113)
Exchange adjustments	(6)	5	(6)
Impairment loss recognised on receivables	(91)	(21)	—
Balance at end of the year	(97)	(113)	(119)

Included in the allowance for doubtful debts are individually impaired trade receivables relating to wholesale customers with an aggregate balance of HK$97,000, HK$113,000 and HK$119,000 as at 31 December 2010, 31 December 2011 and 31 December 2012, respectively. Full provision has been made for individual trade receivables aged over one year with no subsequent settlements as historical evidence shows that such amounts are not recoverable.

There are no trade and other receivables denominated in currencies other than functional currencies of the respective group entities which they relate.

The followings are the financial assets of the Group transferred to banks which did not qualify for derecognition in their entirety, at the end of each reporting period:

	Bills receivables discounted to banks with full recourse Year ended 31 December		
	2010	**2011**	**2012**
	HK$'000	*HK$'000*	*HK$'000*
Carrying amount of transferred assets	10,340	14,185	13,267
Carrying amount of associated liabilities	10,340	14,185	13,267
Net position	—	—	—

Under the above arrangements, the Group transferred the contractual rights to receive cash flows from the bills receivables to the respective banks by discounting the bills receivables for cash on a full recourse basis. As the Group has not transferred the significant risks and rewards relating to these bills receivables, it continues to recognise the full carrying amount of the bills receivables. These financial assets are carried at amortised cost in the Financial Information and associated liabilities have been recognised and included in liabilities as bank loans related to bills discounted with recourse.

20. AMOUNT DUE FROM (TO) IMMEDIATE HOLDING COMPANY

THE GROUP

The balance representing amount due from (to) immediate holding company, KTS International, is of non-trade nature, unsecured, interest-free and repayable on demand. The amount will be fully settled by part of net proceeds from the Listing.

21. AMOUNTS DUE FROM RELATED COMPANIES

THE GROUP

Particulars of the amounts due from related companies are disclosed as follows:

	As at 31 December		
	2010	**2011**	**2012**
	HK$'000	*HK$'000*	*HK$'000*
Maiden Fashion Limited (''Maiden Fashion'') *(Note a)*	20	20	—
Oasis Pacific Rim Limited (''Oasis Pacific'') *(Note a)*	3,875	3,920	—
S.E. Masin Oversea Incorporation SDN. BHD. (''S.E. Masin'') *(Note b)*	5	5	—
United Overseas Sundry Goods Co., Ltd. (''United Overseas Sundry Goods'') *(Note a)*	5,613	—	—
	9,513	3,945	—

Notes:

(a) Maiden Fashion, Oasis Pacific and United Overseas Sundry Goods are wholly-owned subsidiaries of CN Fashion.

(b) S.E. Masin is a company wholly-owned by Mr. Chu Siu Ming, who is a director of the Company and a substantial shareholder of KTS International.

Maximum amounts outstanding during the Track Record Period are as follows:

	Year ended 31 December		
	2010	**2011**	**2012**
	HK$'000	*HK$'000*	*HK$'000*
Maiden Fashion	20	20	20
Oasis Pacific	3,875	3,920	3,920
S.E. Masin	5	5	5
United Overseas Sundry Goods	5,613	5,613	—

The amounts were of non-trade nature, unsecured, interest-free and repayable on demand. The amounts were fully settled during the Track Record Period.

22. BANK BALANCES AND CASH

THE GROUP

Bank balances carry interest at prevailing market rates of 0.01% to 0.50%, 0.01% to 0.88% and 0.01% to 0.75% per annum as at 31 December 2010, 31 December 2011 and 31 December 2012, respectively.

Included in bank balances are the following amounts denominated in currencies other than functional currencies of the respective group entities which they relate:

	As at 31 December		
	2010	**2011**	**2012**
	HK$'000	*HK$'000*	*HK$'000*
HK$	2,403	698	700
USD	90	—	50
MOP	87	87	87

23. TRADE AND OTHER PAYABLES

	As at 31 December		
	2010	**2011**	**2012**
	HK$'000	*HK$'000*	*HK$'000*
THE GROUP			
Trade payables *(Note a)*	23,866	9,517	6,892
Deposits received from customers	747	5	9
Accrued expenses	26,359	32,340	19,931
Other payables	4,220	3,467	6,020
Dividend payable *(Note b)*	2,404	4,572	2,072
Total trade and other payables	57,596	49,901	34,924

Notes:

(a) At 31 December 2010, included in the trade payables was an amount of HK$20,155,000 (2011 and 2012: nil) payable to United Overseas Sundry Goods, a related company of the Group, which was aged between 61 to 90 days.

(b) The amount represents dividend payable to CN Fashion which is unsecured, interest-free and repayable on demand. The amount was fully settled subsequent to 31 December 2012.

The average credit period of trade payables is 30 days.

The following is an aged analysis of trade payables based on the invoice date at the end of each reporting period.

	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
	23,866	9,517	6,892

There are no trade and other payables denominated in currency other than functional currencies of the respective group entities which they relate.

24. AMOUNTS DUE TO RELATED COMPANIES

	As at 31 December		
	2010	**2011**	**2012**
	HK$'000	*HK$'000*	*HK$'000*
THE GROUP			
Chung Tai Supplies Co., Ltd. (''Chung Tai'') *(Note a)*	4,549	4,534	—
Kaiser Bright Limited (''Kaiser Bright'') *(Note b)*	565	—	—
Lekin Limited (''Lekin'') *(Note c)*	1,295	1,803	—
Perfect Cycle Limited (''Perfect Cycle'') *(Note d)*	4,810	2,115	—
United Overseas Sundry Goods	2,003	385	—
	13,222	8,837	—

Notes:

(a) Chung Tai is a wholly-owned subsidiary of CN Fashion.

(b) Kaiser Bright is a company wholly-owned by Mr. Chu Chun Wah, Haeta, who is a director of the Company and shareholder of KTS International.

(c) Lekin is a company owned by KTS International and certain shareholders of KTS International.

(d) Perfect Cycle is a wholly-owned subsidiary of KTS International.

The amounts were of non-trade nature, unsecured, interest-free and repayable on demand. The amounts were settled during the Track Record Period.

25. AMOUNTS DUE FROM (TO) RELATED PARTIES

THE GROUP

The amount due from a related party represents amount due from Mr. Chu Chun Ho, Dominic, a director of the Company and a shareholder of KTS International, which is of non-trade nature, unsecured, interest-free and repayable on demand. The maximum amounts outstanding due from a related party are nil, HK$527,000 and HK$1,630,000 for the years ended 31 December 2010, 2011 and 2012, respectively. The amount will be fully settled before the Listing.

The amounts due to related parties represent loans from Mr. Chu Siu Ming, a director of the Company and a substantial shareholder of KTS International, and Ms. Wong May Heung, a close family member of Mr. Chu Siu Ming. The amounts are interest bearing at Prime lending rate and repayable on demand. The effective interest rate for the Track Record Period is 5% per annum. Approximately HK$8,000,000 was repaid by cash up to 30 April 2013 and the remaining balance will be settled by part of net proceeds from the Listing.

26. BANK BORROWINGS

	As at 31 December		
	2010	**2011**	**2012**
	HK$'000	*HK$'000*	*HK$'000*
THE GROUP			
Bank loans	35,575	22,731	20,140
Loans related to bills discounted with recourse	10,340	14,185	13,267
Trust receipt loans	8,898	30,696	59,650
	54,813	67,612	93,057
Secured	45,887	57,496	63,155
Unsecured	8,926	10,116	29,902
	54,813	67,612	93,057
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
Carrying amount of bank borrowings that are not repayable within one year from the end of the reporting period but contain a repayable on demand clause (shown under current liabilities)	10,883	3,500	1,500
	54,813	67,612	93,057
Less: Amounts due within one year shown under current liabilities	(36,845)	(51,612)	(77,697)
Amounts shown under non-current liabilities	17,968	16,000	15,360

* The amounts due are based on scheduled repayment dates set out in the loan agreements.

The above bank borrowings bear interests at benchmark interest rate of Central Bank of Taiwan plus 0.45% to 1.2% or Hong Kong Interbank Offered Rate plus 1.625 to 2.25% per annum.

The range of effective interest rates (which are also equal to contracted interest rates) on the Group's borrowings as at 31 December 2010, 31 December 2011 and 31 December 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%

Details of the pledged assets to secure the bank borrowings are set out in note 32.

Details of bank borrowings guaranteed by related parties are set out in note 33.

27. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments			Present value of minimum lease payments		
	As at 31 December			As at 31 December		
	2010	2011	2012	2010	2011	2012
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
THE GROUP						
Amounts payable under finance leases:						
Within one year	139	—	—	133	—	—
More than one year but not more than two years	21	—	—	20	—	—
Less: Future finance charges	(7)	—	—	—	—	—
Present value of lease obligations	153	—	—	153	—	—
Less: Amount due for settlement within one year (shown under current liabilities)				(133)	—	—
Amount due for settlement after one year				20	—	—

The Group leased certain motor vehicles under finance leases. The average lease term was 4.5 years. The average effective interest rate underlying all obligations under finance leases was fixed at contract dates at 4.25% per annum.

28. SHARE CAPITAL

The Company was incorporated on 17 December 2012 with an authorised share capital of 5,000,000 shares of HK$0.01 each. On the same date, 1 share of HK$0.01 was issued to CN Fashion as par to provide initial capital of the Company.

The share capital as at 1 January 2010, 31 December 2010 and 31 December 2011 shown in the Financial Information represented the combined share capital of Kong Tai Sundry Goods and Grand Asian. The share capital as at 31 December 2012 represented the combined share capital of the Company and S. Culture BVI.

29. CONTINGENT LIABILITIES

At 31 December 2010, 31 December 2011 and 31 December 2012, the Group and the Company had no significant contingent liabilities.

30. RETIREMENT BENEFITS SCHEMES

The Group operates a Mandatory Provident Fund Scheme (the ''HK MPF Scheme'') under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed in Hong Kong and Mandatory Provident Fund Scheme under the Labour Standards Law (as amended) in Taiwan (the ''TW MPF Scheme'') for employees employed in Taiwan. The HK MPF Scheme and the TW MPF Scheme are defined contribution retirement schemes administered by independent trustees. Under the HK MPF Scheme and TW MPF Scheme, the employer and its employees are each required to make contributions to the scheme at 5% and 6%, respectively, of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000 (increases to HK$25,000 effective 1 June 2012) for the HK MPF Scheme while there is no cap to monthly income under the TW MPF Scheme. Contributions to the schemes vest immediately.

The employees employed by a subsidiary in Macau Special Administrative Region of the People's Republic of China (''Macau'') are members of the government-managed social benefits schemes operated by the Macau government. The subsidiary is required to pay a monthly fixed contribution to the social benefits schemes to fund the benefits. The only obligation of the Group with respect to the social benefits schemes operated by the Macau government is to make the required contributions under the schemes. The assets of the schemes are held separately from those of the Group in funds under the control of an independent trustee.

The retirement scheme cost recognised in profit and loss represents contributions paid or payable to the schemes by the Group at rates specified in the rules of the scheme. At the end of each reporting period, the Group had no significant obligation apart from the contributions as stated above and there is no forfeited contribution arose upon employees leaving the retirement benefit schemes and which were available to reduce contributions payable.

31. OPERATING LEASE COMMITMENTS

At the end of each reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall 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 years inclusive	47,724	92,397	65,613
	97,445	190,638	175,018

Operating lease payments represent rentals payable by the Group for the warehouses, retail stores and department store counters. Leases are negotiated for terms ranging from one to five years.

Certain retail stores and department store counters include payment obligations with rental varied with gross revenue. The contingent rents are determined generally by applying pre-determined percentages to realised sales less the basic rentals of the respective leases.

32. PLEDGE OF ASSETS

At 31 December 2010, 31 December 2011 and 31 December 2012, leasehold land and buildings amounting to HK$33,959,000, HK$33,311,000 and HK$32,664,000, respectively, were pledged to secure the bank borrowings and banking facilities granted to the Group and refundable deposits (included in trade and other receivables), amounting to HK$181,000, HK$599,000 and HK$689,000 were pledged to secure the foreign exchange contracts entered into with a bank, respectively.

At 31 December 2010, 31 December 2011 and 31 December 2012, bills receivables with amounting to HK$10,340,000, HK$14,185,000 and HK$13,267,000, respectively, were pledged to secure the loans related to bills discounted with recourse.

33. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in the Financial Information, the Group had entered into the following related party transactions:

Name of related companies	Nature of transactions	Year ended 31 December 2010	2011	2012
		HK$'000	*HK$'000*	*HK$'000*
Continuing transactions				
Becking Investment Limited (''Becking Investment'') *(Note a)*	Rental expense	309	309	309
Mr. Chong Hok Shan	Rental expense	268	288	268
Transactions to be discontinued after the Listing				
CN Group Limited (''CN Group'') *(Note a)*	Service fee expense	120	1,500	—
Lekin	Recharge of expense	293	292	261
	Management Fee income	—	—	100
United Overseas Sundry Goods	Repurchase	9,990	—	—
	Rental expense	122	—	—
	Purchase of property, plant and equipment	1,704	—	—
Zenico (Asia) Co., Ltd (''Zenico Asia'') *(Note b)*	Rental expense	—	—	120
	Management Fee income	126	126	126

Notes:

(a) Becking Investment and CN Group are wholly-owned by Mr. Chong Hok Shan, a substantial shareholder of KTS International, and Mr. Chong Hot Hoi and Mr. Chong Hok Hei, Charles, the directors of the Company.

(b) Zenico Asia is owned by close family members of Mr. Chu Siu Ming, a director of the Company and a substantial shareholder of KTS International.

Mr. Chu Siu Ming has provided personal guarantees of HK$114,500,000, HK$124,263,000 and HK$136,906,000 to a bank in respect of the Group's banking facilities as at 31 December 2010, 31 December 2011 and 31 December 2012, respectively. The personal guarantees will be released upon the Listing.

Mr. Chong Hok Shan has also provided personal guarantees of HK$35,700,000, HK$45,463,000 and HK$58,106,000 to a bank in respect of the Group's banking facilities as at 31 December 2010, 31 December 2011 and 31 December 2012, respectively. The personal guarantee will be released upon the Listing.

Compensation of key management personnel

The remuneration of key management of the Group during the Track Record Period was as follows:

	Year ended 31 December		
	2010	**2011**	**2012**
	HK$'000	*HK$'000*	*HK$'000*
Salaries and allowances	5,708	8,929	6,987
Performance related incentive payments	2,748	7,327	—
Retirement benefit schemes contributions	134	207	227
	8,590	16,463	7,214

(B) HOLDING COMPANY

The Company's immediate and ultimate holding company is KTS International, a company which was incorporated in the BVI with issued share capital substantially owned by Mr. Chong Hok Shan and Mr. Chu Siu Ming.

(C) EVENTS AFTER THE REPORTING PERIOD

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

(a) On 21 January 2013, Grand Asian disposed of the 100% equity interest in Aiuti and Cotteen Marketing to CN Fashion for a total consideration of HK$41,000, resulting in nil gain or loss on disposal.

(b) On 11 June 2013, the Company declared a dividend of HK$20,000,000 to its shareholders. The dividend will be settled by part of net proceeds from the Listing.

(D) SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies of the Group subsequent to 31 December 2012.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong