You should read the following discussion and analysis of our Group's financial condition and results of operations together with our consolidated financial statements as at and for the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2012 and 2013 and the accompanying notes included in the accountants' report set out in Appendix I to this prospectus. Potential investors should read the whole of the accountants' report set out in Appendix I to this prospectus and not rely merely on the information contained in this section. The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. For additional information regarding these risks and uncertainties, please refer to the section headed "Risk Factors" in this prospectus.

OVERVIEW

We are a major, established manufacturer and seller of footwear and a well-known seller of business casual menswear in China. According to the Frost & Sullivan Report, we were the third largest manufacturer of branded business casual footwear products and the sixth largest manufacturer of branded men's and women's footwear products in the PRC in terms of retail revenue for the year ended 31 December 2012, with a market share of 4.1% and 2.3%, respectively. According to Frost & Sullivan, the overall PRC footwear market consists of men's and women's footwear, sports shoes, and children's shoes, of which, our main business sectors, men's and women's footwear, can be further categorised into formal footwear, business casual footwear and sports casual footwear. Approximately 14.5%, 8.9% and 7.5% of the retail revenue of the overall PRC footwear market was attributable to the branded business casual footwear segment, formal footwear segment and sports casual footwear segment for the year ended 31 December 2012, according to Frost & Sullivan.

We primarily manufacture and sell our products under our Fuguiniao brand. The strength of our brand is a key factor in our business and we have received numerous awards recognising our products and the brands under which they are sold. From 1998 to 2012, our leather footwear products were named the "China Leather Shoes King" (中國真皮鞋王) or "China Leading Leather Shoes King" (中國真皮領先鞋王) four times by the China Leather Industry Association. Our Fuguiniao brand was recognised as a "China Well-known Trademark" (中國馳名商標) as early as January 1999. In 2002 and 2005, our Fuguiniao branded footwear was recognised as a "China Top Brand Product" (中國名牌產品) by AQSIQ. In 2006, our Fuguiniao brand was named as one of "The Most Competitive Brands" (最具市場競爭力品牌) by MOFCOM.

We offer a diversified product portfolio, which we believe positions us well in the PRC footwear and apparel markets. The history of our footwear business under the Fuguiniao brand can be traced back to 1991 when the brand was launched by our Founders. We began to produce men's leather footwear in 1995 and expanded our product line into women's footwear in 1997. Currently, we offer a wide range of men's and women's footwear products under our Fuguiniao, FGN and AnyWalk brands. Leveraging the well-established brand recognition of our Fuguiniao branded footwear products, we have successfully diversified into other related product lines under our Fuguiniao brand, including a wide range of business casual menswear products, such as suits, pants, jackets and shirts, and leather accessories, such as belts, bags, luggage and wallets.

Our products are primarily sold through an extensive sales and distribution network across the PRC. As at 30 June 2013, we had a sales and distribution network of 3,195 retail outlets across 31 provinces, autonomous regions and municipalities in China, 2,961 of which were operated by our distributors and third-party retailers with the remaining retail outlets being operated directly by us. These retail outlets include department store outlets and stand-alone stores. We sell a majority of our products on a wholesale basis to authorised distributors who subsequently sell our products to end customers through retail outlets they operate or which are operated by third-party retailers with whom they contract. All of our distributors and the third-party retailers were Independent Third Parties as at the Latest Practicable Date. As at 30 June 2013 we had 60 distributors across China. We have working relationships of ten years or more with 22 of these distributors. Sales to our distributors accounted for approximately 57.3%, 73.2%, 72.1% and 76.9% and 71.0% of our turnover for the years ended 31 December 2010, 2011, 2012 and the six months ended 30 June 2012 and 2013, respectively. In addition to selling our branded products to authorised distributors, we also sell our products directly to customers through direct sales channels, including our proprietary outlets, large-scale institutional purchases and online sales. In particular, sales through such proprietary outlets accounted for approximately 6.2%, 1.4%, 4.6% and 1.0% and 10.6% of our turnover for the years ended 31 December 2010, 2011, 2012 and the six months ended 30 June 2012 and 2013, respectively.

While we sell a majority of our products under our own brands to domestic distributors, we also manufacture footwear products on an OEM or ODM basis, primarily for overseas footwear brands, such as “BLONDO”, “COVANI” and “CONNI”. For the years ended 31 December 2010, 2011, 2012 and the six months ended 30 June 2012 and 2013, the turnover generated from our OEM/ODM business accounted for 36.1%, 24.2%, 19.9% and 20.2% and 15.2%, respectively, of our total turnover. For the six months ended 30 June 2013, we manufactured approximately 63.1% of our footwear products in terms of turnover at our own production facilities in Shishi City, Fujian Province and outsourced the rest of our footwear and all of our menswear and leather accessories production to third-party subcontractors. We believe this combination of in-house and outsourced production provides us with significant flexibility to allow us to meet market demand on a timely and cost-effective basis. Our quality control team monitors each stage of our production process to ensure high quality of our products, which is one of our top priorities. We also work closely with our third-party subcontractors to ensure that all of our outsourced products meet our quality standards.

We have grown rapidly during the Track Record Period. Our turnover grew from RMB1,070.1 million for the year ended 31 December 2010 to RMB1,651.6 million for the year ended 31 December 2011, and to RMB1,932.1 million for the year ended 31 December 2012, representing a CAGR of approximately 34.4% during the period. It also grew from RMB903.1 million for the six months ended 30 June 2012 to RMB1,084.4 million for the six months ended 30 June 2013. Our profit increased from RMB118.7 million for the year ended 31 December 2010 to RMB253.9 million for the year ended 31 December 2011, and to RMB323.6 million for the year ended 31 December 2012, representing a CAGR of 65.1% during the period. It increased from RMB145.1 million for the six months ended 30 June 2012 to RMB209.0 million for the six months ended 30 June 2013.

BASIS OF PRESENTATION

Our Company was established by Fook Lam Leather in Shishi City, Fujian Province, on 20 November 1995. Fook Lam Leather was a company held by Mr. Wang Jianshe on behalf of Mr. Lam Wo Ping, Mr. Lam Wo Sze, Mr. Lam Kwok Keung and Mr. Lam Wing Ho, shareholders of Fuguiniao Holdco. On 8 October 2004, Fook Lam Leather entered into an agreement with Fuguiniao Holdco, under which Fook Lam Leather transferred its entire shareholding of our Company to Fuguiniao Holdco. Upon the transfer, Fuguiniao Holdco became the immediate and ultimate holding company of our Group. During the Track Record Period, our Company entered into certain agreements with Fuguiniao Holdco under which our Company merged with one company and acquired certain other companies which were under the control of Fuguiniao Holdco. All of these transactions were considered as business combinations under common control for the purpose of preparation of the Accountants' Report. In addition, during the Track Record Period, our Company disposed a subsidiary to Shishi Fuguiniao.

The consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated cash flow statements of our Group as set forth in section A of the "Appendix I – Accountants' Report" to this prospectus include the results of operations of the companies comprising our Group for the Track Record Period (or where the companies were established or acquired at a date later than 1 January 2010, for the period from the date of establishment or acquisition to 30 June 2013), as if our Group structure has been in existence throughout the Track Record Period. The consolidated statements of financial position as at 31 December 2010, 2011 and 2012 and 30 June 2013 as set out in "Appendix I – Accountants' Report" to this prospectus have been prepared to present the state of affairs of the companies comprising our Group as at the respective dates.

All material intra-group transactions and balances have been eliminated on consolidation.

FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our results of operations have been and will continue to be affected by a number of factors, including those set out below.

Brand awareness

We believe brand awareness plays a critical role in influencing customers' purchasing decisions. Market acceptance of our brands may affect the selling prices and market demand of our products, the profit margin we are able to achieve, and our ability to expand our business. Our Fuguiniao brand was recognised as the "China Well-Known Trademark" by the Trade Mark Bureau of SAIC in 1999. From 1998 to 2012, our leather footwear products were awarded "China Leather Shoes King" (中國真皮鞋王) or "China Leading Leather Shoes King" (中國真皮領先鞋王) four times by China Leather Industry Association. Our Fuguiniao brand was recognised as a "China Well-known Trademark" (中國馳名商標) as early as January 1999. In 2002 and 2005, our Fuguiniao branded footwear was awarded "China Top Brand Product" (中國名牌產品) by AQSIQ. In 2006, our Fuguiniao brand was named as one of "The Most Competitive Brands" (最具市場競爭力品牌) by MOFCOM. To promote our brand name and image, our market strategy primarily consists of continuing (i) to engage Mr. Lu Yi (陸毅), a famous actor in China, as our menswear brand ambassador to participate in our promotional activities and (ii) to enhance our brand image in all retail outlets through uniform management of the store decoration and storage rack display to maintain consistent brand image. For the years ended 31 December 2010, 2011, 2012 and the six months ended 30 June 2012 and 2013, we incurred approximately RMB43.2 million, RMB75.0 million, RMB80.2 million and RMB35.0 million and RMB28.6 million on our advertising and promotion activities, respectively, accounting for 4.0%, 4.5%, 4.2% and 3.9% and 2.6% of our turnover, respectively. We work closely with our distributors to ensure that our brand image is well-maintained at all of the retail outlets for our branded products. We believe our ability to successfully grow our business depends on our ability to continue to enhance the awareness of our brand and to maintain a consistent brand culture to appeal to our customers. If we are unable to successfully maintain and promote our brand, market perception and consumer acceptance of our brand may be eroded, and our business and results of operations may be materially and adversely affected.

Performance of our distributors and expansion of our sales and distribution network

Our products are sold through an extensive sales and distribution network across the PRC. We sell a majority of our products on a wholesale basis to distributors who subsequently sell our products to end customers through retail outlets operated by themselves or by third-party retailers. As at 30 June 2013, we had a total of 60 distributors in the PRC. We have working relationships of ten years or more with 22 of these distributors. These distributors together with third-party retailers operate a wide distribution and retail network consisting of 2,961 retail outlets across 31 provinces, autonomous regions and municipalities in China as at 30 June 2013. Sales to our distributors accounted for approximately 57.3%, 73.2%, 72.1% and 76.9% and 71.0% of our turnover for the years ended 31 December 2010, 2011, 2012 and the six months ended 30 June 2012 and 2013, respectively. For further details of our retail outlets breakdown by region, please see "Business – Sales and Distribution". Growth in retail sales of our products and our turnover is directly affected by the performance and number of retail outlets selling our products operated by our distributors and third-party retailers. We plan to expand our current retail network by adding approximately 1,600 new retail outlets by the end of 2015. As part of such plan, we will work closely with our distributors and third-party retailers to help them open 1,200 to 1,300 new retail outlets to further expand our geographical coverage and increase our market penetration in the PRC footwear and menswear markets.

In addition to expanding our distributor network, we also aim to enhance our control over our distribution channel by increasing the number of self-owned stores. Sales through our proprietary outlets accounted for approximately 6.2%, 1.4%, 4.6% and 1.0% and 10.6% of our turnover for the years ended 31 December 2010, 2011, 2012 and the six months ended 30 June 2012 and 2013, respectively. We operated 234 proprietary outlets as at 30 June 2013 and plan to open an additional 300 to 400 proprietary outlets by the end of 2015. As part of this expansion, we plan to selectively establish and operate 20 flagship stores and 65 footwear and menswear image stores at prime commercial locations in certain Tier 1, Tier 2 and Tier 3 cities in the PRC for brand building purposes, and three integrated stores each with a gross area of 600 to 1,000 square meters in Fuzhou, Quanzhou and Zhangzhou, respectively, in which we will sell all types of products we offer under each of our brands pursuant to our one-stop shopping strategy in order to take advantage of cross-selling opportunities. As at the Latest Practicable Date, we had opened one integrated store in Quanzhou.

Our sales network is crucial to our growth and success. Our results of operations will continue to depend on our ability to effectively manage our distributors to optimize the performance of our retail outlets and to further expand our distribution network.

Product mix and pricing

Our results of operations are impacted by our product mix. We have established a diversified product portfolio consisting of men's and women's footwear, business casual menswear and leather accessories sold under our different three brands: Fuguiniao, FGN and AnyWalk. Products under each brand target distinct customer groups in China based on demographics such as age, gender, job status and wealth. We believe a diversified product and brand portfolio allows us to target a wider customer base, enhance our market competitiveness and reduce the risk of reliance on any one particular market or customer group. In 2010, virtually all of the products we sold were footwear products. In 2011, we began to sell our menswear products under our Fuguiniao brand. For the year ended 31 December 2012, the turnover we generated from the sales of menswear products accounted for 22.2% of our total turnover. The sales of menswear products since 2011 has increased our total turnover for 2011 and 2012. Due to higher gross margin, the sales of menswear products have improved our overall gross margin for the year ended 31 December 2012 compared to 2010 and 2011 and we intend to further expand our existing product lines under each brand by offering more styles within our existing product categories and to introduce additional footwear and menswear products as well as to expand leather offerings that are complementary to our current footwear and menswear offerings. We have adjusted and will continue to adjust our product mix in an effort to increase our profitability.

Our turnover and profitability are also affected by the pricing of our products, which is determined by factors such as prevailing market conditions, cost of design, cost of raw materials and production and prices set by competitors for similar items. Our ability to continue to price our products at levels that reflect our brand equity is crucial to our financial performance. We sell our branded products to all of our distributors at wholesale prices. Based on the factors described above, we set up suggested price ranges for our footwear products to be sold to retail consumers and suggested retail prices for our menswear products and leather accessories by displaying the price on the tags we attach to such products. In limited circumstances, our distributors may sell our products at a price outside the suggested price ranges with our written consent. These suggested price ranges and suggested retail prices are subject to adjustment by us from time to time. Distributors are required to, and additionally must ensure that third-party retailers, sell our products at a price within the suggested price ranges for our footwear products or at suggested retail prices for our menswear products and leather accessories, as applicable. In the first half of 2013, we raised suggested price ranges for our footwear and leather accessory products compared to the same period in 2012. In conjunction with such increase, the average sales prices of our footwear products that we sold to our customers also increased. For example, the average sales price of our footwear products was RMB199.19 for the first half of 2013, compared to RMB179.07 for the same period in 2012. The average sales price of our products has a direct impact on our turnover and profitability. As a result, the gross margin of our footwear products increased from 26.4% for the year ended 31 December 2010 to 32.2% for the year ended 31 December 2012 and further increased to 38.5% for the six months ended 30 June 2013.

Cost of Raw Materials and Outsourced Production

The main raw material used in the manufacturing of our footwear and leather accessories is natural leather. Other raw materials used include fabrics, heels, glue, outsoles, insoles, nails, ornaments and zippers. The principal raw materials used in the production of our menswear products are fabrics. We sourced approximately 85.7% of our raw materials from within China and the remainder, mainly those required by our OEM/ODM customers, from overseas, for the year ended 31 December 2012. For the years ended 31 December 2010, 2011, 2012 and the six months ended 30 June 2012 and 2013, the cost of our raw materials accounted for approximately 57.1%, 47.6%, 40.4% and 38.4% and 39.6% of our total cost of sales, respectively.

We primarily seek to fulfill footwear orders through production at our own production facilities though we also outsource a significant portion of our footwear products to subcontractors. In addition, in order to maintain operational flexibility we outsource the production of all of our menswear and leather accessories to subcontractors as we do not have the necessary facilities to manufacture these products. For the years ended 31 December 2010, 2011, 2012 and the six months ended 30 June 2012 and 2013, the cost to outsource our production to subcontractors accounted for approximately 22.6%, 35.6%, 45.1% and 46.1% and 47.9% of our total cost of sales, respectively.

In recent years, the prices of raw materials and outsourced productions have increased due to various factors, including availability of raw materials and cost of production. However, such rise in costs has generally been slower than increased prices and positive changes in our product mix. As such, our gross margin grew from 26.4% in 2010 to 33.8% in 2012 and further to 38.6% for the six months ended 30 June 2013. Our performance in the future will continue to depend on our ability to pass such increases to our end consumers and our ability to find and manage qualified subcontractors who meet our quality standards at commercially acceptable prices. Please see “Risk Factors – Risks Relating to Our Business – We depend on subcontractors to manufacture a portion of our products”.

Levels of Per Capita Disposable Income and Consumer Spending in the PRC

We generate a significant portion of our turnover in the PRC. For the years ended 31 December 2010, 2011, 2012 and the six months ended 30 June 2012 and 2013, turnover generated in the PRC constituted approximately 66.7%, 78.3%, 81.7%, 82.1% and 84.9%, respectively, of our total turnover, respectively. China has experienced substantial economic growth in recent years. According to National Bureau of Statistics of China, China’s nominal GDP grew from RMB26,581 billion in 2007 to RMB51,932 billion in 2012, representing a CAGR of approximately 14.3% during the period. Economic growth in the PRC contributes to the increases in disposable income and consumer spending among its population, which, in turn, drive demand for consumer products. According to Frost & Sullivan, per capita disposable income for urban households in China, which make up the majority of our end consumers, increased from RMB13,786 in 2007 to RMB24,565 in 2012, representing a CAGR of approximately 12.2%. In addition, according to Frost and Sullivan, economic development and increase in disposable income tend to have a positive impact on the demand for branded consumer products, including footwear and menswear products. We believe that the growth of the PRC economy will help to expand our end customer base and contribute to the growth in our turnover and profits. However, any slow down or decline in the PRC economy may adversely affect consumer demand in general and the demand for our products and therefore, negatively affect our business and results of operations.

Seasonality and Weather

We experience seasonal fluctuations in our turnover generated from China as consumer spending patterns vary on a seasonal basis. We generally record higher sales during major holidays and festivals, as compared with our sales in other periods in a financial year. In addition, we typically generate more turnover from our winter and fall collections than spring and summer collections because the shoes and apparel we sell in fall and winter generally have higher prices than those we sell in spring and summer. As a result of such fluctuations, comparisons of sales and results of operations between different periods within a single financial year, or between different periods in different financial years cannot be relied on as indicators of our performance.

Weather patterns may also change consumer preferences. For example, consumers tend to purchase lighter and thinner footwear and apparel products when the weather is relatively warm, and heavier and thicker footwear and apparel products when the weather is relatively cold. As such, if the weather is significantly different from what we have expected, we may not have sufficient and suitable footwear and menswear products to meet consumers' demands. See also "Risk Factors – Risks Relating to Our Business – Our sales volume is sensitive to changes in consumer spending patterns, seasonality and change of weather patterns".

Competition

The casual and fashion footwear manufacturing industry and business casual menswear manufacturing industry are highly competitive and are characterized by frequent introduction of new designs, short product life cycles, high price sensitivity, and customers' focus on quality. We have limited ability to set price levels of our products in our target markets, and we therefore may take actions such as adjusting prices of our products and increasing expenditure on advertising and promotional activities in order to be competitive in the market, which may in turn materially and adversely affect our profit margins and our results of operations. See also "Risk Factors – Risks Relating to Our Industry – The PRC footwear and menswear manufacturing industry is highly competitive".

We also compete with online retailers of footwear and apparel products. As e-commerce becomes more popular, consumers and businesses will increasingly engage online services in their selection and purchase of goods and services. Although online retailers remain a small portion of retail distribution in the footwear and apparel industry in the PRC and so far their overall market penetration in China is limited, a number of large-scale online footwear and apparel retailers emerged and an increasing number of leading retailers are offering online ordering and home delivery services. See also "Risk Factors – Risks Relating to Our Business – We may not be able to fully and effectively compete against online footwear and apparel retailers in China".

CRITICAL ACCOUNTING POLICIES, ESTIMATES AND JUDGMENTS

The methods, estimates and judgments we use in applying our accounting policies have a significant impact on our financial position and operating results. Some of the accounting policies require us to apply estimates and judgments on matters that are inherently uncertain. Set forth below are discussions of the accounting policies applied in preparing our financial information that we believe are most dependent on the application of these estimates and judgments, and, in addition, certain other accounting policies that we believe are material to an understanding of our financial information.

Revenue Recognition

Revenue is measured at fair value of the consideration received or receivable; provided it is probable that the economic benefits will flow to our Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

Sale of Goods

Turnover is recognised when the customer has accepted the related risks and rewards of ownership. Turnover excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Government Grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that our Group will comply with the conditions attaching to them. Grants that compensate our Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same year in which the expenses are incurred. Grants that compensate our Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful lives of the asset by way of reduced depreciation expense.

Unconditional discretionary government grants from the local municipal government authorities are recognised in the profit or loss as other revenue when the amount is received.

Inventories

Inventories are carried at the lower of cost and net realizable value. Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related turnover is recognised. The amount of any write-down of inventories to net realizable value and all losses of inventories are recognised as an expense in the period when the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Trade and Other Receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortized cost using the effective interest method, less allowance for impairment of doubtful debts, except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

Trade and other receivables are derecognised if substantially all the risks and rewards of ownership of the trade and other receivables are transferred. If substantially all the risks and rewards of ownership of trade and other receivables are retained, the trade and other receivables are continued to recognise in the consolidated statement of financial position. For discounted commercial acceptance bills to banks with recourse, the bills receivable are not derecognised until the customer settled the respective bills with the banks.

Impairment of Assets

Impairment of trade and other receivables

Trade and other receivables that are stated at amortized cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of our Group about one or more of the following loss events:

- significant financial difficulty of the debtor;

- a breach of contract, such as default or delinquency in interest or principal payments;

- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and

- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

If such evidence exists, any impairment loss is determined and recognised as follows:

- For trade and other receivables carried at amortized cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade and bills receivables included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When our Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade and bills receivables directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs.

No depreciation is provided in respect of construction in progress. Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

- Buildings held for own use which are situated on leasehold land are depreciated over the shorter of the unexpired term of the lease and their estimated useful lives, being no more than 20 years after the date of completion
- Plant and machinery 10 years
- Leasehold improvements 3 years
- Motor vehicles 8 years
- Furniture, fixtures and equipment 5 years

Both the useful life of an asset and its residual value, if any, are reviewed annually.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Income Tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to business combinations, or items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each end of the reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if our Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, our Group intend either to settle on a net basis, or to realize the asset and settle the liability simultaneously; or

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either: (i) the same taxable entity; or (ii) different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realize the current tax assets and settle the current tax liabilities on a net basis or realize and settle simultaneously.

RESULTS OF OPERATIONS

The following table sets forth selected items of our consolidated statements of comprehensive income for the periods indicated:

	Year ended 31 December			Six months ended 30 June	
	2010	2011	2012	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	1,070,090	1,651,560	1,932,129	903,119	1,084,406
Cost of sales	(787,145)	(1,139,505)	(1,279,833)	(619,440)	(666,208)
Gross profit	282,945	512,055	652,296	283,679	418,198
Other revenue	27,300	29,274	34,601	14,903	7,160
Other net (loss)/income	(6,783)	(5,936)	1,883	634	1,390
Selling and distribution expenses	(62,353)	(95,691)	(127,451)	(45,655)	(73,770)
Administrative and other operating expenses	(39,283)	(63,450)	(87,273)	(33,317)	(60,815)
Profit from operations	201,826	376,252	474,056	220,244	292,163
Finance costs	(40,850)	(50,269)	(42,117)	(26,880)	(10,633)
Profit before taxation	160,976	325,983	431,939	193,364	281,530
Income tax expense	(42,235)	(72,129)	(108,352)	(48,291)	(72,530)
Profit and total comprehensive income for the year/period	118,741	253,854	323,587	145,073	209,000

PRINCIPAL COMPONENTS OF CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Turnover

We are principally engaged in the manufacturing and sales of men's and women's footwear and the sales of menswear and leather accessories. Turnover represents the sales value of goods sold less returns, discounts and value-added taxes. Based on our product return policies, our distributors are in general not allowed to return the goods to us whereas our OEM/ODM customers may return defective products where we are responsible for such defects. The table below sets forth our turnover by product type for the periods indicated:

	Year ended 31 December						Six months ended 30 June			
	2010		2011		2012		2012		2013	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Product Type										
Footwear	1,068,257	99.8	1,373,855	83.2	1,500,469	77.7	691,385	76.6	875,021	80.7
Men's footwear	334,909	31.3	465,704	28.2	509,201	26.4	256,854	28.4	301,794	27.8
Women's footwear	733,348	68.5	908,151	55.0	991,268	51.3	434,531	48.2	573,227	52.9
Menswear	–	–	269,415	16.3	428,195	22.2	208,776	23.1	206,859	19.1
Leather accessories	1,833	0.2	8,290	0.5	3,465	0.1	2,958	0.3	2,526	0.2
Total	**1,070,090**	**100.0**	**1,651,560**	**100.0**	**1,932,129**	**100.0**	**903,119**	**100.0**	**1,084,406**	**100.0**

While the majority of our turnover is derived from our business in China, we also sell our products on an OEM/ODM basis to overseas customers. The following table sets forth the breakdown of our turnover by geographical regions for the periods indicated, based on the location of the parties with whom we entered into sales agreements:

	Year ended 31 December						Six months ended 30 June			
	2010		2011		2012		2012		2013	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Location										
China	713,293	66.7	1,292,989	78.3	1,578,493	81.7	740,972	82.1	920,611	84.9
Russia	187,093	17.5	189,263	11.4	153,369	7.9	77,819	8.6	53,215	4.9
Italy	16,626	1.6	26,028	1.6	62,683	3.2	12,915	1.4	57,192	5.3
Austria	74,356	6.9	87,670	5.3	60,297	3.1	34,318	3.8	29,063	2.7
Canada	38,874	3.6	37,808	2.3	48,986	2.6	10,781	1.2	14,177	1.3
Other	39,848	3.7	17,802	1.1	28,301	1.5	26,314	2.9	10,148	0.9
Total	**1,070,090**	**100.0**	**1,651,560**	**100.0**	**1,932,129**	**100.0**	**903,119**	**100.0**	**1,084,406**	**100.0**

In addition, we sell our products under three main brands, Fuguiniao, FGN and AnyWalk. During the Track Record Period, a majority of our turnover was derived from the sales of our products under the Fuguiniao brand, which was launched in 1991. However, we also sold limited amounts of products under our AnyWalk brand, which targets fashion-conscious consumers aged from 16 to 35, and beginning in 2012, we launched our FGN brand of products targeting the urban population aged from 25 to 40 with higher pricing. The table below sets forth a breakdown of our turnover by brands and our OEM/ODM sales for the periods indicated:

	Year ended 31 December						Six months ended 30 June			
	2010		2011		2012		2012		2013	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Brands										
Fuguiniao	681,458	63.7	1,230,200	74.5	1,394,785	72.2	694,876	76.9	830,182	76.5
FGN	–	–	–	–	105,515	5.5	3,401	0.4	72,143	6.7
AnyWalk	2,062	0.2	21,103	1.3	46,797	2.4	22,630	2.5	17,346	1.6
OEM/ODM	386,570	36.1	400,257	24.2	385,032	19.9	182,212	20.2	164,735	15.2
Total	**1,070,090**	**100.0**	**1,651,560**	**100.0**	**1,932,129**	**100.0**	**903,119**	**100.0**	**1,084,406**	**100.0**

We sell a majority of our branded products to our distributors who subsequently sell our products to end customers through retail outlets they or third-party retailers operate. We also sell our products directly to end customers through proprietary outlets we operate ourselves. In 2002, we also began to sell products via large-scale institutional purchases by certain large enterprises and governmental and other entities primarily to provide customized footwear and menswear products pursuant to their design specifications and requirements. Since 2011, a small percentage of our branded products have also been sold via third-party online shopping platforms. The following table sets forth the breakdown of our turnover from the sales of our branded products and OEM/ODM products by sales channel during the periods indicated:

	Year ended 31 December						Six months ended 30 June			
	2010		2011		2012		2012		2013	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Channel										
Distributors	613,364	57.3	1,208,986	73.2	1,392,784	72.1	694,584	76.9	770,115	71.0
Proprietary outlets	66,635	6.2	22,166	1.4	88,020	4.6	8,901	1.0	115,369	10.6
Large-scale institutional purchases	3,521	0.4	12,203	0.7	28,269	1.4	4,855	0.5	9,826	0.9
Online sales	–	–	7,947	0.5	38,024	2.0	12,568	1.4	24,361	2.3
OEM/ODM customers	386,570	36.1	400,258	24.2	385,032	19.9	182,211	20.2	164,735	15.2
Total	**1,070,090**	**100.0**	**1,651,560**	**100.0**	**1,932,129**	**100.0**	**903,119**	**100.0**	**1,084,406**	**100.0**

The following table sets forth the number of units sold and average sales for each of our product type for the periods indicated:

	Year ended 31 December									Six months ended 30 June					
	2010			2011			2012			2012			2013		
	Turnover	Units Sold	Avg. Sales Price	Turnover	Units Sold	Avg. Sales Price	Turnover	Units Sold	Avg. Sales Price	Turnover	Units Sold	Avg. Sales Price	Turnover	Units Sold	Avg. Sales Price
	RMB'000	'000	RMB	RMB'000	'000	RMB	RMB'000	'000	RMB	RMB'000	'000	RMB	RMB'000	'000	RMB
Product Type															
Footwear . . .	1,068,257	6,249	170.95	1,373,855	7,646	179.68	1,500,469	7,760	193.36	691,385	3,861	179.07	875,021	4,393	199.19
Menswear . . .	–	–	–	269,415	1,924	140.03	428,195	2,842	150.67	208,776	1,428	146.20	206,859	1,524	135.73
Leather accessories. .	1,833	7	261.86	8,290	27	307.04	3,465	92	37.66	2,958	82	36.07	2,526	26	97.15
Total	**1,070,090**			**1,651,560**			**1,932,129**			**903,119**			**1,084,406**		

Cost of sales

Cost of sales primarily consists of cost of raw materials, direct labor, sub-contracting expenses and overhead for our own production. The following tables set forth a breakdown of our cost of sales for in-house production and our total cost of sales for the Track Record Period:

	Year ended 31 December						Six months ended 30 June			
	2010		2011		2012		2012		2013	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Raw materials.	449,356	73.8	542,693	73.9	517,270	73.7	238,082	71.2	263,490	75.9
Direct labor	90,975	14.9	109,229	14.9	107,587	15.3	54,886	16.4	52,023	15.0
Production overhead	68,655	11.3	82,026	11.2	77,457	11.0	41,194	12.4	31,788	9.1
Cost of sales for in-house production	608,986	100.0	733,948	100.0	702,314	100.0	334,162	100.0	347,301	100.0

	Year ended 31 December						Six months ended 30 June			
	2010		2011		2012		2012		2013	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Cost of sales for in-house production .	608,986	77.4	733,948	64.4	702,314	54.9	334,162	53.9	347,301	52.1
Sub-contracting charges.	178,159	22.6	405,557	35.6	577,519	45.1	285,278	46.1	318,907	47.9
Total cost of sales . . .	**787,145**	**100.0**	**1,139,505**	**100.0**	**1,279,833**	**100.0**	**619,440**	**100.0**	**666,208**	**100.0**

Our raw materials primarily consist of leather, outsoles, insoles, fabrics, heels, glue, nails, ornaments and zippers used in our production. Cost of raw materials represented approximately 73.8%, 73.9%, 73.7% and 71.2% and 75.9%, respectively, of our cost of sales for in-house production for the years ended 31 December 2010, 2011, 2012 and the six months ended 30 June 2012 and 2013. Factors affecting the cost of raw materials include, among others, price fluctuation of each raw material, our purchase amount and terms of payment, our design and manufacturing technologies which may improve our utilization of raw materials, our product portfolio consisting of low-end, middle-end, high-end and luxury products which need different qualities of raw materials, and changing fashion trends in the industry.

The following table sets forth a breakdown of our cost of sales for key raw materials and average unit cost for each key raw material for the Track Record Period:

	Year ended 31 December									Six months ended 30 June					
	2010			2011			2012			2012			2013		
	Cost		Average Unit cost	Cost		Average Unit cost	Cost		Average Unit cost	Cost		Average Unit cost	Cost		Average Unit cost
	RMB'000	%	RMB	RMB'000	%	RMB	RMB'000	%	RMB	RMB'000	%	RMB	RMB'000	%	RMB
Key raw materials															
Upper leather	268,029	59.6	59.58	313,858	57.8	59.01	297,275	57.5	60.03	132,801	55.8	53.70	150,231	57.0	58.07
Lining leather	71,242	15.9	15.84	81,177	15.0	15.26	91,677	17.7	18.51	41,489	17.4	16.78	42,692	16.2	16.50
Outsoles	45,841	10.2	10.19	60,215	11.1	11.32	59,159	11.4	11.95	30,527	12.8	12.34	36,762	14.0	14.21
Others[(1)]	64,244	14.3	14.28	87,443	16.1	16.44	69,159	13.4	13.97	33,265	14.0	13.45	33,805	12.8	13.07
Total	**449,356**	**100.0**	**99.88**	**542,693**	**100.0**	**102.03**	**517,270**	**100.0**	**104.46**	**238,082**	**100.0**	**96.27**	**263,490**	**100.0**	**101.85**

Note:

(1) Others primarily include insoles, fabric and heels.

Average unit cost per pair of shoes of upper leather increased by RMB4.37, or 8.1%, from RMB53.70 for the six months ended 30 June 2012 to RMB58.07 for the six months ended 30 June 2013 primarily because we increased the production of our middle-end and high-end products which used higher quality leather that commanded higher market price.

Average unit cost of lining leather per pair of shoes increased by RMB3.25, or 21.3%, from RMB15.26 for the year ended 31 December 2011 to RMB18.51 for the year ended 31 December 2012 primarily due to an increase in the market price and the fact that we used more cattle leather which has a higher price than pig leather, as lining leather.

Direct labor costs consist of salaries and benefits for employees in our production operations, and represented approximately 14.9%, 14.9%, 15.3% and 16.4% and 15.0%, respectively, of our cost of sales for in-house production for the years ended 31 December 2010, 2011, 2012 and the six months ended 30 June 2012 and 2013.

Production overhead costs mainly comprise indirect labor (representing primarily staff costs for our production management team), fuel, electricity, depreciation of plant and equipment and rental expenses.

Sub-contracting charges relate to the costs we incur from outsourcing the production of certain of our products. We have utilised external subcontractors to produce a significant portion of our footwear products, as we optimize our cost structure and improve efficiency of our production facilities. Turnover generated from the sales of footwear products produced by our external subcontractors accounted for 22.8%, 24.6%, 32.7% and 32.6% and 36.9% of our total turnover in 2010, 2011, 2012 and the six months ended 30 June 2012 and 2013, respectively. We have also outsourced the production of all of our menswear products and leather accessories to subcontractors because we believe it is more cost efficient to outsource the production of these products than to install new production lines at our manufacturing facilities. Factors affecting our sub-contracting charges include, among others, the market price fluctuations of raw materials, the distance between suppliers of raw materials and the locations of our sub-contractors and the market labor price in different areas where our sub-contractors are located.

The following table illustrates the average unit cost of sales for our in-house and sub-contracted production for the Track Record Period:

	Year ended 31 December			Six months ended 30 June	
	2010	**2011**	**2012**	**2012**	**2013**
	RMB	**RMB**	**RMB**	**RMB**	**RMB**
In-house production	135.09	137.26	141.82	135.12	134.25
Sub-contracted production	102.09	95.70	100.58	98.44	95.03
Average unit cost of sales	**125.82**	**118.74**	**119.68**	**115.33**	**112.10**

The reason that the average unit cost of sales for in-house production was higher than that for the sub-contracted production during the Track Record Period was primarily because we produce most of our high-end and luxury footwear products in-house, which required higher quality of raw materials, and only outsource the production of our middle-end and low-end footwear products and our menswear and leather accessory products to third-party sub-contractors.

The following table sets forth our cost of sales associated with each product type for the periods indicated:

	Year ended 31 December						Six months ended 30 June			
	2010		2011		2012		2012		2013	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Footwear	785,927	99.8	963,205	84.5	1,017,605	79.5	488,495	78.9	538,384	80.8
Men's footwear	248,072	31.5	325,706	28.6	344,916	27.0	184,453	29.8	183,954	27.6
Women's footwear	537,855	68.3	637,499	55.9	672,689	52.5	304,042	49.1	354,430	53.2
Menswear	–	–	170,587	15.0	260,141	20.3	129,141	20.8	126,110	18.9
Leather accessories	1,218	0.2	5,713	0.5	2,087	0.2	1,804	0.3	1,714	0.3
Total cost of sales	**787,145**	**100.0**	**1,139,505**	**100.0**	**1,279,833**	**100.0**	**619,440**	**100.0**	**666,208**	**100.0**

Gross profit and gross profit margin

For the years ended 31 December 2010, 2011, 2012 and the six months ended 30 June 2012 and 2013, our gross profit was RMB282.9 million, RMB512.1 million, RMB652.3 million and RMB283.7 million and RMB418.2 million, respectively, and our gross profit margin was 26.4%, 31.0%, 33.8% and 31.4% and 38.6%, respectively, for the same periods. Our gross profit margin is affected by factors such as the average retail selling price per unit of our products and cost of sales. The following table sets forth our gross profit and gross profit margin by product type for the periods indicated:

	Year ended 31 December						Six months ended 30 June			
	2010		2011		2012		2012		2013	
	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Product Type										
Footwear	282,330	26.4	410,650	29.9	482,864	32.2	202,890	29.3	336,637	38.5
Men's footwear	86,837	25.9	139,998	30.1	164,285	32.3	72,401	28.2	117,840	39.0
Women's footwear	195,493	26.7	270,652	29.8	318,579	32.1	130,489	30.0	218,797	38.2
Menswear	–	–	98,828	36.7	168,054	39.2	79,635	38.1	80,749	39.0
Leather accessories	615	33.6	2,577	31.1	1,378	39.8	1,154	39.0	812	32.1
Total	**282,945**	**26.4**	**512,055**	**31.0**	**652,296**	**33.8**	**283,679**	**31.4**	**418,198**	**38.6**

The following table sets forth a breakdown of our gross profit and gross profit margin by sales channel for the periods indicated:

	Year ended 31 December						Six months ended 30 June			
	2010		2011		2012		2012		2013	
Channel	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Distributors . . .	161,089	26.3	379,719	31.4	476,775	34.2	220,537	31.8	287,600	37.3
Proprietary outlets.	26,422	39.7	11,051	49.9	36,628	41.6	4,278	48.1	52,614	45.6
Large-scale institutional purchases. . .	949	27.0	4,483	36.7	14,586	51.6	1,513	31.2	3,881	39.5
Online sales. . .	–	–	3,309	41.6	14,810	38.9	4,906	39.0	10,944	44.9
OEM/ODM customers. . .	94,485	24.4	113,493	28.4	109,497	28.4	52,445	28.8	63,159	38.3
Total.	**282,945**	**26.4**	**512,055**	**31.0**	**652,296**	**33.8**	**283,679**	**31.4**	**418,198**	**38.6**

Our Directors are of the view that the gross profit margin of our OEM/ODM business segment was relatively stable during the period from the year ended 31 December 2010 to the year ended 31 December 2012, primarily due to our strength in manufacturing procedure, quality control, timely delivery of our products and goodwill from the long term relationships we had with our existing OEM/ODM customers. Our Company intends to maintain these advantages to sustain similar gross profit margin in the future. The gross profit margin of our OEM/ODM business segment grew substantially for the six months ended 30 June 2013 primarily due to higher prices we were able to charge for our OEM and ODM products and our higher production efficiency.

As to our large-scale institution purchases segment, our Directors are of the view that the high gross profit margin for the year ended 31 December 2012 is primarily because of the efforts of our bidding team, which was specifically established to collect bidding information and make the best use of our goodwill resulting from our past business performance to obtain orders via the competitive bidding processes and who was able to successfully secure large orders with higher gross profit margin in the second half of 2012.

Other revenue and other net loss/income

Our other revenue consists primarily of interest income from bank deposits and government grants. Our other net loss/income primarily consists of net foreign exchange loss/gain, loss on disposal of fixed assets and net loss on forward foreign exchange contracts. For the years ended 31 December 2010, 2011, 2012 and the six months ended 30 June 2012 and 2013, the total of our other revenue and other net loss/income was RMB20.5 million, RMB23.3 million, RMB36.5 million and RMB15.5 million and RMB8.6 million, respectively. The following table sets forth a breakdown of our other revenue and other net loss/income for the periods indicated:

	Year ended 31 December			Six months ended 30 June	
	2010	2011	2012	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Other Revenue					
Interest income	25,546	27,485	15,442	14,093	4,021
Government grants	1,666	1,757	18,844	623	1,889
Others	88	32	315	187	1,250
	27,300	29,274	34,601	14,903	7,160
Other Net (loss)/Income					
Net foreign exchange (loss)/gain	(6,783)	(5,774)	2,741	621	(422)
Loss on disposal of fixed assets	–	(168)	(57)	(57)	(28)
Unrealised (loss)/gain on forward foreign exchange contracts	–	–	(871)	–	2,006
Others	–	6	70	70	(166)
	(6,783)	(5,936)	1,883	634	1,390
Total of other revenue and other net loss/income	**20,517**	**23,338**	**36,484**	**15,537**	**8,550**

Selling and distribution expenses

Selling and distribution expenses primarily consist of advertising and promotional expenses relating to brand promotions, publicity and sponsorship fees and advertisements, salaries and benefits for sales and marketing personnel, transportation costs, rental fees, traveling expenses and outlet management fees. For the years ended 31 December 2010, 2011, 2012 and the six months ended 30 June 2012 and 2013, our selling and distribution expenses accounted for 5.8%, 5.8%, 6.6% and 5.1% and 6.8%, respectively, of our turnover. Advertising and promotional expenses accounted for the vast majority of our selling and distribution expenses. For the the years ended 31 December 2010, 2011, 2012 and the six months ended 30 June 2012 and 2013, advertising and promotional expenses were RMB43.2 million, RMB75.0 million, RMB80.2 million and RMB35.0 million and RMB28.6 million, respectively, representing 69.2%, 78.4%, 62.9% and 76.6% and 38.8%, respectively, of our selling and distribution expenses for the same periods. Rental expenses primarily consist of expenses for renting (i) office space and (ii) proprietary retail outlets. We have entered into rental leases for the premises of five of the proprietary retail outlets we operate. The following table sets forth a breakdown of our selling and distribution expenses for the periods indicated:

	Year ended 31 December						Six months ended 30 June			
	2010		2011		2012		2012		2013	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Advertising and promotion expenses	43,176	69.2	74,978	78.4	80,194	62.9	34,961	76.6	28,618	38.8
Salaries and benefits	7,706	12.4	8,634	9.0	24,377	19.1	5,030	11.0	25,251	34.2
Transportation costs	4,049	6.5	4,099	4.3	7,076	5.6	2,832	6.2	5,165	7.0
Rental fees	1,434	2.3	1,186	1.2	3,014	2.4	781	1.7	2,232	3.1
Traveling expenses	961	1.5	1,650	1.7	1,547	1.2	511	1.1	1,581	2.1
Outlet management fees	1,884	3.0	876	0.9	8,406	6.6	340	0.7	8,869	12.0
Others[(1)]	3,143	5.1	4,268	4.5	2,837	2.2	1,200	2.7	2,054	2.8
Total selling and distribution expenses	**62,353**	**100.0**	**95,691**	**100.0**	**127,451**	**100.0**	**45,655**	**100.0**	**73,770**	**100.0**

Note:

(1) Others primarily includes office expenses, motor vehicles costs, utility fees and insurance expenses.

Administrative and other operating expenses

Our administrative and operating expenses primarily consist of salaries and benefits for administrative personnel, research and development costs, depreciation and amortization expenses relating to property, plant and equipment used for administrative purposes, fees for consulting services, office expenses, business entertainment fees, motor vehicle costs and travelling fees. For the years ended 31 December 2010, 2011, 2012 and the six months ended 30 June 2012 and 2013, our administrative and other operating expenses were RMB39.3 million, RMB63.5 million, RMB87.3 million and RMB33.3 million and RMB60.8 million, respectively. The following table sets forth a breakdown of our administrative and other operating expenses for the periods indicated:

	Year ended 31 December						Six months ended 30 June			
	2010		2011		2012		2012		2013	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Salaries and benefits. . .	11,861	30.2	17,557	27.7	34,230	39.2	12,721	38.2	17,262	28.4
Research and development expenses[1]	8,071	20.5	15,201	24.0	24,581	28.2	8,611	25.8	19,918	32.8
Depreciation and amortization	2,764	7.0	2,500	3.9	6,340	7.3	2,736	8.2	3,779	6.2
Fees for consulting services	2,102	5.4	5,373	8.5	3,283	3.8	2,107	6.3	312	0.5
Offices expenses	1,213	3.1	2,432	3.8	2,974	3.4	1,405	4.2	1,510	2.5
Business entertainment expenses	1,360	3.5	1,668	2.6	2,448	2.8	1,195	3.6	1,083	1.8
Motor vehicle costs. . . .	1,763	4.5	1,826	2.9	2,223	2.5	967	2.9	790	1.3
Traveling expenses . . .	2,016	5.1	1,752	2.8	3,156	3.6	893	2.7	1,385	2.3
Bad debt	102	0.3	5,922	9.3	(9,281)	(10.6)	(1,550)	(4.6)	–	–
Others[2]	8,031	20.4	9,219	14.5	17,319	19.8	4,232	12.7	14,776	24.3
Total administrative and other expenses .	**39,283**	**100.0**	**63,450**	**100.0**	**87,273**	**100.0**	**33,317**	**100.0**	**60,815**	**100.0**

Notes:

(1) Research and development expenses include staff costs of employees in the design, research and development department.

(2) Others primarily include listing expenses, tax expenses, insurance expenses and rental fees.

For the years ended 31 December 2010, 2011, 2012 and the six months ended 30 June 2012 and 2013, our administrative and other operating expenses represented 3.7%, 3.8%, 4.5% and 3.7% and 5.6%, respectively, of our turnover for the relevant period.

Finance cost

Our finance costs represent interest on bank loans and interest on other borrowings wholly repayable within five years, which were RMB40.9 million, RMB50.3 million, RMB42.1 million and RMB26.9 million and RMB10.6 million for the years ended 31 December 2010, 2011, 2012 and the six months ended 30 June 2012 and 2013, respectively.

Income tax

Our income tax represents current tax and movements in deferred tax assets. Current tax comprises primarily PRC corporate income tax for the entities comprising our Group and tax provisions in respect of prior years. Deferred tax comprises mainly movement in deferred tax assets on recognised deductible temporary differences arising from accrued expenses, provision for doubtful debts and unrealized profits in inventories. Our Group was not subject to Hong Kong Profits Tax as our Group did not earn any assessable profit subject to Hong Kong Profits Tax during the Track Record Period.

Under the PRC Corporate Income Tax Law, we and our subsidiaries are subject to a statutory rate of 25% except one of our subsidiaries, Fujian Fuguiniao, which was entitled to a preferential tax rate of 12.5% in 2010 and 2011. According to the relevant PRC regulations, to obtain preferential tax treatment as a productive foreign-invested enterprise in a certain fiscal year, the turnover of such foreign-invested enterprise derived from production activities must exceed 50% of its total turnover during that year. In the year ended 31 December 2012, Fujian Fuguiniao transformed its focus from production to retail sales as a measure to facilitate our process of gradually taking over the operation of the 208 department store outlets originally operated by the Related Distributor in 2012. Therefore, the productive turnover of Fujian Fuguiniao did not exceed 50% of its total turnover, and accordingly, it failed to be qualified as a productive foreign-invested enterprise, and was subject to a statutory rate of 25%.

Our income tax expenses for the years ended 31 December 2010, 2011, 2012 and the six months ended 30 June 2012 and 2013 were RMB42.2 million, RMB72.1 million, RMB108.4 million and RMB48.3 million and RMB72.5 million, respectively. Our effective tax rate for the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2012 and 2013 was 26.2%, 22.1% and 25.1% and 25.0% and 25.8%, respectively.

PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

Six Months Ended 30 June 2012 compared with Six Months Ended 30 June 2013

Turnover

Our turnover increased by RMB181.3 million, or 20.1%, from RMB903.1 million for the six months ended 30 June 2012 to RMB1,084.4 million for the six months ended 30 June 2013. This increase was primarily due to the increase in the sales of our footwear products.

Sales of footwear products. Turnover from the sales of our footwear products increased by RMB183.6 million, or 26.6%, from RMB691.4 million for the six months ended 30 June 2012 to RMB875.0 million for the six months ended 30 June 2013. This increase consisted of an increase in the turnover from the sales of our men's footwear and women's footwear products by RMB44.9 million and RMB138.7 million, respectively, and was primarily due to (i) an increase in the turnover generated from our proprietary retail outlets;

(ii) an increase in the turnover from our online sales, which almost doubled; and (iii) an increase in the average sales prices of our footwear products in response to an increase in the sales price of footwear products in the PRC footwear market.

Sales of menswear products. Turnover from the sales of our menswear products remained relatively stable with a slight decrease of RMB1.9 million, or 0.9%, from RMB208.8 million for the six months ended 30 June 2012 to RMB206.9 million for the six months ended 30 June 2013.

Sales of leather accessory products. Turnover from the sales of our leather accessory products decreased by RMB0.5 million, or 16.7%, from RMB3.0 million for the six months ended 30 June 2012 to RMB2.5 million for the six months ended 30 June 2013. This decrease was primarily due to a decrease in the sales volume as a result of fluctuating demand from our distributors.

Turnover by location. Turnover from the sales of our branded products in China increased by RMB179.6 million, or 24.2%, from RMB741.0 million for the six months ended 30 June 2012 to RMB920.6 million for the six months ended 30 June 2013. This increase was primarily due to the increase of the turnover generated from our proprietary retail outlets as a result of our gradually taking over the operation of 208 retail outlets from the Related Distributor beginning in July 2012. Turnover from the sales of our products overseas, all attributable to footwear products manufactured from overseas brands on an OEM or ODM basis, remained relatively stable for the six months ended 30 June 2012 and 2013.

Turnover by brand. Turnover from the sales of our Fuguiniao products increased by RMB135.3 million, or 19.5%, from RMB694.9 million for the six months ended 30 June 2012 to RMB830.2 million for the six months ended 30 June 2013. This increase was primarily due to an increase in the sales volume of our footwear products and an increase in average sales price. Turnover from the sales of our AnyWalk products decreased by RMB5.3 million, or 23.5%, from RMB22.6 million for the six months ended 30 June 2012 to RMB17.3 million for the six months ended 30 June 2013. This decrease was primarily due to the adjustment we were in the process of making to the products' style which is expected to be completed by the end of 2013. Due to such on-going adjustment, we only sold products in stock instead of offering and promoting any new products. Turnover from the sales of our FGN products increased by RMB68.7 million, or 2020.6%, from RMB3.4 million for the six months ended 30 June 2012 to RMB72.1 million for the six months ended 30 June 2013. This increase was primarily because our FGN brand was first introduced in 2012 and our business under the FGN brand became more mature in the first half of 2013. Turnover from the sales of our OEM/ODM products decreased by RMB17.5 million, or 9.6%, from RMB182.2 million for the six months ended 30 June 2012 to RMB164.7 million for the six months ended 30 June 2013. This decrease was primarily due to a decrease in the orders from our domestic OEM/ODM customers, which vary from time to time due to the nature of their business.

Turnover by sales channel. Turnover from distributors increased by RMB75.5 million, or 10.9%, from RMB694.6 million for the six months ended 30 June 2012 to RMB770.1 million for the six months ended 30 June 2013. This increase was primarily due to an increase in the sales orders from our distributors and an increase in the average sales price of our products. Turnover from our proprietary outlets increased by RMB106.5 million, or 1196.6%, from RMB8.9 million for the six months ended 30 June 2012 to RMB115.4 million for the six months ended 30 June 2013. This increase was primarily due to the turnover contributed by the 208 retail outlets whose operation we gradually took over from the

Related Distributor beginning in July 2012. Turnover from large-scale institutional purchases and online sales increased by RMB16.8 million, or 96.6%, from RMB17.4 million for the six months ended 30 June 2012 to RMB34.2 million for the six months ended 30 June 2013. This increase was primarily due to the maturity of our business in large-scale institutional purchases and online sales.

Cost of sales

Our cost of sales increased by RMB46.8 million, or 7.6%, from RMB619.4 million for the six months ended 30 June 2012 to RMB666.2 million for the six months ended 30 June 2013. This increase was primarily due to an increase in sales volume of our products and a slight increase in average unit cost, partially offset by a decrease in production overhead and direct labor as more of our products were outsourced to third-party subcontractors for production.

Cost of sales by product

Cost of sales of footwear products. Cost of sales of our footwear products increased by RMB49.9 million, or 10.2%, from RMB488.5 million for the six months ended 30 June 2012 to RMB538.4 million for the six months ended 30 June 2013. This increase was primarily due to an increase in the cost of sales of women's footwear as a result of a significant increase in sales.

Cost of sales of menswear products. Cost of sales of our menswear products decreased by RMB3.0 million, or 2.3%, from RMB129.1 million for the six months ended 30 June 2012 to RMB126.1 million for the six months ended 30 June 2013. This decrease was in line with a decrease in the sales of our menswear products as a result of weakening customer demand.

Cost of sales of leather accessory products. Cost of sales of our leather accessory products decreased by RMB0.1 million, or 5.6%, from RMB1.8 million for the six months ended 30 June 2012 to RMB1.7 million for the six months ended 30 June 2013. This decrease was in line with a decrease in the sales of our leather accessory products.

Gross profit and gross profit margin

As a result of the foregoing, our gross profit increased by RMB134.5 million, or 47.4%, from RMB283.7 million for the six months ended 30 June 2012 to RMB418.2 million for the six months ended 30 June 2013. Our gross profit margin increased from 31.4% for the six months ended 30 June 2012 to 38.6% for the six months ended 30 June 2013. This increase in our gross profit margin during this period was primarily because (i) the average sales price of our footwear products increased; and (ii) we sold more products to our end customers through direct sales channels such as proprietary retail outlets and online sales, for which the cost of sales was generally less than the cost of sales through other indirect sales channels, such as retail outlets operated by our distributors.

Other revenue and other net loss/income

Our other revenue and other net loss/income decreased by RMB6.9 million, or 44.5%, from RMB15.5 million for the six months ended 30 June 2012 to RMB8.6 million for the six months ended 30 June 2013. This decrease was primarily due to a decrease in the interest income as a result of the full repayment of the loan we extended to our related party, Shishi Fuguiniao, which was partially offset by an increase in the advertising grants from PRC local government, and in unrealised gain on forward foreign exchange contracts.

Selling and distribution expenses

Our selling and distribution expenses increased by RMB28.1 million, or 61.5%, from RMB45.7 million for the six months ended 30 June 2012 to RMB73.8 million for the six months ended 30 June 2013. This increase was primarily due to (i) a substantial increase in salaries and benefits of our sales and marketing personnel as a result of an increase in headcount and (ii) an increase in outlet management fees from our management of additional proprietary retail outlets.

Administrative and other operating expenses

Administrative and other operating expenses increased by RMB27.5 million, or 82.6%, from RMB33.3 million for the six months ended 30 June 2012 to RMB60.8 million for the six months ended 30 June 2013. This increase was primarily due to an increase in the research and development expenses as we increased our research and development efforts, salaries and benefits for our administrative personnel due to an increase in headcount and listing expenses incurred.

Finance costs

Our finance costs decreased by RMB16.3 million, or 60.6%, from RMB26.9 million for the six months ended 30 June 2012 to RMB10.6 million for the six months ended 30 June 2013. This decrease was primarily due to a decrease in interest payment on our bank loans.

Income tax

Our income tax increased by RMB24.2 million, or 50.1%, from RMB48.3 million for the six months ended 30 June 2012 to RMB72.5 million for the six months ended 30 June 2013. This increase was primarily due to the increases of our profit before taxation. Our effective tax rate increased from 25.0% for the six months ended 30 June 2012 to 25.8% for the six months ended 30 June 2013.

Profit for the period

As a result of the foregoing, our profit for six months increased by RMB63.9 million, or 44.0%, from RMB145.1 million for the six months ended 30 June 2012 to RMB209.0 million for the six months ended 30 June 2013.

Year Ended 31 December 2012 compared with Year Ended 31 December 2011

Turnover

Our turnover increased by RMB280.5 million, or 17.0%, from RMB1,651.6 million for the year ended 31 December 2011 to RMB1,932.1 million for the year ended 31 December 2012. The increase was primarily due to (i) an increase in the sales of our footwear products and (ii) an increase in the sales of our menswear products.

Sales of footwear products. Turnover from the sales of our footwear products increased by RMB126.6 million, or 9.2%, from RMB1,373.9 million for the year ended 31 December 2011 to RMB1,500.5 million for the year ended 31 December 2012. This increase consisted of an increase in the turnover from the sales of our men's footwear and women's footwear products by RMB43.5 million and RMB83.1 million, respectively, and was primarily due to (i) an increase in the volume of footwear products sold from 7.6 million pairs for the year ended 31 December 2011 to 7.8 million pairs for the year ended 31 December 2012 as a result of an increase in the number of footwear retail outlets from 2,274 in 2011 to 2,412 in 2012 and stronger demand from our distributors associated with our business expansion; and (ii) higher average sales prices from RMB179.68 per pair for the year ended 31 December 2011 to RMB193.36 per pair for the year ended 31 December 2012 as a result of the increase in suggested price ranges we provided to our distributors of our products and stronger bargaining power reflecting our improving brand recognition, which allowed us to raise the prices of the products we sold to our distributors as well as an increase in proprietary sales and a decrease of OEM/ODM sales as a percentage of total sales.

Sales of menswear products. Turnover from the sales of our menswear products increased by RMB158.8 million, or 58.9%, from RMB269.4 million for the year ended 31 December 2011 to RMB428.2 million for the year ended 31 December 2012. This increase was primarily due to (i) an increase in the sales volume of menswear products sold from 1.9 million pieces for the year ended 31 December 2011 to 2.8 million pieces for the year ended 31 December 2012 as a result of an increase in the number of menswear retail outlets from 757 in 2011 to 819 in 2012; (ii) higher average sales prices of our menswear products from RMB140.03 per piece for the year ended 31 December 2011 to RMB150.67 per piece for the year ended 31 December 2012 and (iii) the consolidation of turnover from our menswear business into our Group for the full year in 2012 compared to eight months in 2011.

Sales of leather accessory products. Turnover from the sales of our leather accessory products decreased by RMB4.8 million, or 57.8%, from RMB8.3 million for the year ended 31 December 2011 to RMB3.5 million for the year ended 31 December 2012. This decrease was primarily due to a shift to selling smaller leather accessories such as wallets and belts that have lower sales price rather than larger leather accessories such as leather luggage, handbags and briefcases. As a result, average sales price of our leather accessories decreased from RMB307.04 per item for the year ended 31 December 2011 to RMB37.66 per item for the year ended 31 December 2012.

Turnover by location. Turnover from the sales of our branded products in China increased by RMB285.5 million, or 22.1%, from RMB1,293.0 million for the year ended 31 December 2011 to RMB1,578.5 million for the year ended 31 December 2012, primarily because of an increase in the number of retail outlets in our network that sold our branded products and a higher average sales price. Turnover from the sales of our products overseas, all attributable to footwear products manufactured for overseas brands on an OEM or ODM basis, remained relatively stable for the years ended 31 December 2011 and 2012.

Turnover by brand. Turnover from the sales of our Fuguiniao products increased by RMB164.6 million, or 13.4%, from RMB1,230.2 million for the year ended 31 December 2011 to RMB1,394.8 million for the year ended 31 December 2012, primarily due to strong growth contributed by the sale of our menswear products under the Fuguiniao brand, driven by increase in both sales volume and average sales price, and because we were able to consolidate the turnover from our menswear business for only eight months in 2011. Turnover from the sales of our AnyWalk products increased significantly from RMB21.1 million for the year ended 31 December 2011 to RMB46.8 million for the year ended 31 December 2012 primarily due to (i) the increase in the number of units sold and higher average sales price and (ii) an increase in the number of retail outlets that sold our AnyWalk products and in the average sales at the individual retail outlets. Turnover from the sales of our OEM/ODM products decreased from RMB400.3 million for the year ended 31 December 2011 to RMB385.0 million for the year ended 31 December 2012 primarily due to an decrease in the number of OEM/ODM units sold in China and a decrease in the average sales price for OEM/ODM products sold overseas.

Turnover by sales channel. Turnover from distributors increased by RMB183.8 million, or 15.2%, from RMB1,209.0 million for the year ended 31 December 2011 to RMB1,392.8 million for the year ended 31 December 2012, primarily due to an increase in the number of retail outlets operated by our distributors in 2012. Turnover from our proprietary outlets increased significantly from RMB22.2 million for the year ended 31 December 2011 to RMB88.0 million for the year ended 31 December 2012 mainly because we gradually took over the operations of the 208 proprietary outlets from the Related Distributor during the Track Record Period, which consisted of eight companies and which was owned by one of our Directors and Shareholder, Mr. Lam Wo Sze, beginning in July 2012. In connection with the takeover, we entered into new contracts with the relevant department stores where the 208 retail outlets were located after their then-existing contracts with such department stores have expired or were terminated by the Related Distributor. The new contracts were entered into by us on substantially the same terms as the expired or terminated contracts. Turnover from large-scale institutional purchases and online sales also increased significantly by RMB16.1 million and RMB30.1 million from 2011 to 2012, respectively, primarily due to our effort to expand of our business in these two segments and an increase in the number of our online customers.

Cost of sales

Our cost of sales increased by RMB140.3 million, or 12.3%, from RMB1,139.5 million for the year ended 31 December 2011 to RMB1,279.8 million for the year ended 31 December 2012. This increase was primarily due to significant increases in the sub-contracting charges we incurred due to increased sales of our menswear and leather accessory products, production of all of which are subcontracted, as well as an increase in outsourcing production of additional footwear products. This increase was partially offset by a decrease in the cost of raw materials, direct labor and production overhead as a result of reduced internal production of our footwear products.

Cost of sales by product

Cost of sales of footwear products. Cost of sales of our footwear products increased by RMB54.4 million, or 5.6%, from RMB963.2 million for the year ended 31 December 2011 to RMB1,017.6 million for the year ended 31 December 2012. This increase was primarily due to an increase in the outsourcing cost associated with the increased sales of our footwear products in 2012.

Cost of sales of menswear products. Cost of sales of our menswear products increased by RMB89.5 million, or 52.5%, from RMB170.6 million for the year ended 31 December 2011 to RMB260.1 million for the year ended 31 December 2012. This increase was primarily due to the rapid expansion of our menswear business resulting in higher outsourcing costs corresponding with increased sales because we outsource the production of all of our menswear products.

Cost of sales of leather accessory products. Cost of sales of our leather accessory products decreased by RMB3.6 million, or 63.2%, from RMB5.7 million for the year ended 31 December 2011 to RMB2.1 million for the year ended 31 December 2012, primarily due to our shift to sell smaller leather accessories such as wallets and belts in 2012, rather than large leather accessories, such as leather luggage, handbags and briefcases, which were the focus in 2011.

Gross profit and gross profit margin

As a result of the foregoing, our gross profit increased by RMB140.2 million, or 27.4%, from RMB512.1 million for the year ended 31 December 2011 to RMB652.3 million for the year ended 31 December 2012. Our gross profit margin increased from 31.0% for the year ended 31 December 2011 to 33.8% for the year ended 31 December 2012. The increase in our gross profit margin during this period was primarily due to (i) an increase in average sales price; (ii) an increase in percentage of turnover provided by sales of menswear products which have higher gross profit margins; (iii) a decrease in percentage of turnover provided by OEM/ODM sales, which have lower margins and economies of scale; (iv) stronger bargaining power in raw material procurement and subcontracting negotiations and (v) higher efficiency in management of our production costs.

Other revenue and other net loss/income

The total of our other revenue and other net loss/income increased by RMB13.2 million, or 56.7%, from RMB23.3 million for the year ended 31 December 2011 to RMB36.5 million for the year ended 31 December 2012, primarily due to an increase in government grant and net foreign exchange gain, partially offset by a decrease in interest income from bank deposits and a net loss on forward foreign exchange contracts. Our interest income decreased from RMB27.5 million for the year ended 31 December 2011 to RMB15.4 million for the year 31 December 2012 because of a decrease in the loans to a related party. In 2012, we had a net gain of RMB2.7 million on foreign exchange as compared to 2011 when we had a net loss of RMB5.8 million. The loans were fully repaid in August 2012.

Selling and distribution expenses

Our selling and distribution expenses increased RMB31.8 million, or 33.2%, from RMB95.7 million for the year ended 31 December 2011 to RMB127.5 million for the year ended 31 December 2012. The increase was primarily a result of (i) an increase in the advertising and promotion expenses primarily due to increased number of retail outlets and provision of additional decoration and other in-store displays; (ii) increases in salaries and benefits of sales and marketing personnel primarily due to an increase in the number of our proprietary outlets; and (iii) increases in rental fees and outlet management expenses primarily due to an increase in the number of our proprietary outlets.

Administrative and other operating expenses

Administrative and other operating expenses increased by RMB23.8 million, or 37.5%, from RMB63.5 million for the year ended 31 December 2011 to RMB87.3 million for the year ended 31 December 2012. The increase was primarily due to (i) an increase in the salaries and benefits of our administrative personnel primarily due to the expansion of our administrative work force and the related increase in compensation; and (ii) an increase in research and development costs as a result of the expansion of our menswear business and the establishment of our research center in Dongguan, Guangdong Province, China, partially offset by a decrease in fees for consulting services as a result of the completion of several management consulting projects in 2011 that were not renewed in 2012.

Finance costs

Our finance costs decreased by RMB8.2 million, or 16.3%, from RMB50.3 million for the year ended 31 December 2011 to RMB42.1 million for the year ended 31 December 2012. The decrease was primarily due to a decrease in interest on bank loans and other borrowings from RMB48.2 million for the year ended 31 December 2011 to RMB41.5 million for the year ended 31 December 2012 due to a decrease in outstanding bank loans and other borrowings during the period as a result of our repayment of bank loans.

Income tax

Our income tax increased by RMB36.3 million, or 50.3%, from RMB72.1 million for the year ended 31 December 2011 to RMB108.4 million for the year ended 31 December 2012. The increase was primarily due to an increase of RMB40.0 million in PRC corporate income tax primarily as a result of an increase in our profit before taxation and the expiration of preferential tax status for one of our subsidiaries, Fujian Fuguiniao, in 2011, as partially offset by an increase of RMB5.5 million in deferred tax assets. Our effective tax rate increased from 22.1% for the year ended 31 December 2011 to 25.1% for the year ended 31 December 2012.

Profit for the year

As a result of the foregoing, our profit for the year increased by RMB69.7 million, or 27.5%, from RMB253.9 million for the year ended 31 December 2011 to RMB323.6 million for the year ended 31 December 2012.

Year Ended 31 December 2011 Compared with Year Ended 31 December 2010

Turnover

Our turnover increased by RMB581.5 million, or 54.3%, from RMB1,070.1 million for the year ended 31 December 2010 to RMB1,651.6 million for the year ended 31 December 2011. The increase was primarily due to (i) an increase in the sales of our footwear products and (ii) commencement of our sales of menswear products beginning in May 2011.

Sales of footwear products. Turnover from the sales of our footwear products increased by RMB305.6 million, or 28.6% from RMB1,068.3 million for the year ended 31 December 2010 to RMB1,373.9 million for the year ended 31 December 2011. This increase consisted of an increase in the turnover from the sales of our men's footwear and women's footwear products of RMB130.8 million and RMB174.8 million, respectively, and was primarily due to (i) an increase in sales volume from 6.2 million pairs for the year ended 31 December 2010 to 7.6 million pairs for the year ended 31 December 2011, which was contributed by the growth in the number of retail outlets that sell our branded footwear products from 1,820 in 2010 to 2,274 in 2011; and (ii) an increase in the average sales price from RMB170.95 per pair for the year ended 31 December 2010 to RMB179.68 per pair for the year ended 31 December 2011.

Sales of menswear products. Turnover from the sales of our menswear products increased to RMB269.4 million for the year ended 31 December 2011 from RMB Nil for the year ended 31 December 2010, due to the fact that we began selling branded business casual menswear products in May 2011 as a result of a fundamental change in our product mix.

Sales of leather accessory products. Turnover from the sales of our sales of leather accessory products increased from RMB1.8 million for the year ended 31 December 2010 to RMB8.3 million for the year ended 31 December 2011, primarily due to an increase in the number of units sold and an increase in average sales price, which increased from RMB261.86 per item for the year ended 31 December 2010 to RMB307.04 per pair for the year ended 31 December 2011.

Turnover by location. Turnover from the sales of our branded products in China increased by RMB579.7 million, or 81.3%, from RMB713.3 million for the year ended 31 December 2010 to RMB1,293.0 million for the year ended 31 December 2011, primarily because of a rapid increase in the number of retail outlets in our network that sold our branded products and a higher average sales price. Turnover from the sales of our products overseas, all attributable to footwear products manufactured for overseas brands on an OEM or ODM basis, remained stable for the years ended 31 December 2010 and 2011.

Turnover by brand. Turnover from the sales of our Fuguiniao products increased by RMB548.7 million, or 80.5%, from RMB681.5 million for the year ended 31 December 2010 to RMB1,230.2 million for the year ended 31 December 2011, primarily due to the commencement of the sales of our Fuguiniao branded menswear in May 2011 and an increase in the units sold and higher average sales price of the other Fuguiniao – branded products. Turnover from the sales of our AnyWalk products increased from RMB2.1 million for the year ended 31 December 2010 to RMB21.1 million for the year ended 31 December 2011 primarily due to (i) the increase in the number of units sold and higher average sales price and (ii) an increase in the number of retail outlets that sold our AnyWalk products and in the average sales at the individual retail outlets. Turnover from the sales of our OEM/ODM products increased from RMB386.6 million for the year ended 31 December 2010 to RMB400.3 million for the year ended 31 December 2011 primarily due to an increase in the number of OEM/ODM units sold in China and a slight increase in turnover from the OEM/ODM products sold overseas.

Turnover by sales channel. Turnover from distributors increased significantly from RMB613.4 million for the year ended 31 December 2010 to RMB1,209.0 million for the year ended 31 December 2011, primarily due to an increase in the number of retail outlets operated by our distributors in 2011. Turnover from our proprietary outlets decreased substantially from RMB66.6 million for the year ended 31 December 2010 to RMB22.2 million for the year ended 31 December 2011 mainly due to our strategic decision to transfer a significant number of our proprietary retail outlets to distributors located in areas we consider non-strategic to our operations. Turnover from large-scale institutional purchases also increased from 2010 to 2011 primarily due to our efforts for expansion by establishing a dedicated sales and marketing team that targets large institutional customers.

Cost of sales

Our cost of sales increased by RMB352.4 million, or 44.8%, from RMB787.1 million for the year ended 31 December 2010 to RMB1,139.5 million for the year ended 31 December 2011. This increase was primarily due to increased sales volume of our products, including our menswear products in 2011, the general increase in the cost of raw materials and labor in China due in part to inflation and a substantial increase in sub-constructing charges as a result of the rapid expansion of our outsourcing operations.

Cost of sales by product

Cost of sales of footwear products. Cost of sales of our footwear products increased by RMB177.3 million, or 22.6%, from RMB785.9 million for the year ended 31 December 2010 to RMB963.2 million for the year ended 31 December 2011. This increase was primarily due to an increase in the volume of footwear products sold and an increase in the price of raw materials, such as natural cattle leather, heels and outsoles which increased from RMB449.4 million for the year ended 31 December 2010 to RMB542.7 million for the year ended 31 December 2011.

Cost of sales of menswear products. Cost of sales of our menswear products increased from RMB Nil for the year ended 31 December 2010 to RMB170.6 million for the year ended 31 December 2011. This increase was due to the commencement of the sales of our branded business casual menswear products in May 2011.

Cost of sales of leather accessory products. Cost of sales of our leather accessory products increased by RMB4.5 million, or 375%, from RMB1.2 million for the year ended 31 December 2010 to RMB5.7 million for the year ended 31 December 2011. This increase was primarily due to an increase in the number of units of large leather accessories sold.

Gross profit and gross profit margin

As a result of the foregoing, our gross profit increased RMB229.2 million, or 81.0%, from RMB282.9 million for the year ended 31 December 2010 to RMB512.1 million for the year ended 31 December 2011. Our gross profit margin increased from 26.4% for the year ended 31 December 2010 to 31.0% for the year ended 31 December 2011. The increase in our gross profit margin during this period was primarily due to (i) our average cost of sales per unit remaining relatively stable between 2010 and 2011 while we made upward adjustment on the average sales price of our footwear products from RMB170.95 per pair for the year ended 31 December 2010 to RMB179.68 per pair for the year ended 31 December 2011, (ii) the commencement of the sale of our menswear products, which has a higher gross profit margin at 36.7% for the year ended 31 December 2011, compared to that of our footwear business, which was 29.9% for the same period, and (iii) the sales of our products to distributors, which have a higher gross profit margin than our OEM/ODM products, increased at a faster pace than the sales of our products to OEM/ODM customers.

Other revenue and other net loss/income

Our other revenue and other net loss/income increased by RMB2.8 million, or 13.7%, from RMB20.5 million for the year ended 31 December 2010 to RMB23.3 million for the year ended 31 December 2011, primarily due to slight increases in interest income from bank deposits and government grants.

Selling and distribution expenses

Our selling and distribution expenses increased by RMB33.3 million, or 53.4%, from RMB62.4 million for the year ended 31 December 2010 to RMB95.7 million for the year ended 31 December 2011. The increase was primarily a result of an increase in advertising and promotion expenses primarily due to increased number of retail outlets and additional provision for decoration and other in-store display costs, partially offset by a sharp decrease in outlet management fees as a result of our strategic decision to transfer a significant number of proprietary retail outlets to distributors located in areas we consider non-strategic to our operations.

Administrative and other operating expenses

Administrative and other operating expenses increased by RMB24.2 million, or 61.6%, from RMB39.3 million for the year ended 31 December 2010 to RMB63.5 million for the year ended 31 December 2011. The increase was primarily due to (i) an increase in the salaries and benefits of our administrative personnel primarily due to the expansion of our administrative work force and the related increase in pay; (ii) an increase in the research and development costs as a result of the expansion of our menswear business and (iii) an increase in fees for the initiation of several management consulting projects in 2011.

Finance costs

Our finance costs increased by RMB9.4 million, or 23.0%, from RMB40.9 million for the year ended 31 December 2010 to RMB50.3 million for the year ended 31 December 2011. The increase was primarily due to an increase of RMB7.3 million in interest on bank borrowings and an increase of RMB2.1 million in interest on other borrowings wholly repayable within five years.

Income tax

Our income tax increased by RMB29.9 million, or 70.9%, from RMB42.2 million for the year ended 31 December 2010 to RMB72.1 million for the year ended 31 December 2011. The increase was primarily due to an increase of RMB33.6 million in PRC corporate income tax primarily as a result of an increase in our profit before taxation, as partially offset by an over-provision of income tax in respect of prior year and an increase of RMB0.6 million in deferred tax assets resulting primarily from bad debt. Our effective tax rate decreased from 26.2% for the year ended 31 December 2010 to 22.1% for the year ended 31 December 2011, primarily as a result of Fujian Fuguiniao, one of our subsidiaries, enjoyed preferential tax rate in 2011 as a result of meeting the requirements of productive foreign invested enterprise under the relevant PRC tax rules.

Profit for the year

As a result of the foregoing, our profit for the year increased RMB135.2 million, or 113.9%, from RMB118.7 million for the year ended 31 December 2010 to RMB253.9 million for the year ended 31 December 2011.

LIQUIDITY AND CAPITAL RESOURCES

Our primary uses of cash are to fund our working capital requirements, including (i) trade and other payables; (ii) product development; (iii) manufacturing and operating expenses; (iv) repayment of bank loans; and (v) other borrowings and related interest expenses and payment of income tax. We have historically funded our cash requirements primarily from cash flow generated from operations, bank loans and capital injection from shareholders. During the Track Record Period, there have been no material changes in the underlying drivers of the sources and uses of cash. In the future, we intend to satisfy our liquidity requirements by using a combination of cash flow generated from operations, bank loans and other borrowings, net proceeds from the Global Offering and other funds raised from capital market activities from time to time. However, our ability to fund our future liquidity needs is subject to financial success of our current business and other factors including economic and market conditions, some of which are beyond our control. See "Risk Factors – Risks Relating to Our Business – Our ability to obtain additional financing may be limited".

The following table presents selected cash flow data from our Group's consolidated cash flow statements for the Track Record Period, as derived from "Appendix I – Accountants' Report" to this prospectus.

	Year ended 31 December			Six months ended 30 June	
	2010	2011	2012	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Net cash (used in)/generated from operating activities	(103,623)	265,274	422,048	204,175	115,825
Net cash generated from/(used in) investing activities	467,976	47,816	(56,017)	(68,127)	(164,290)
Net cash (used in)/generated from financing activities	(317,040)	49,851	(477,720)	(205,539)	(84,212)
Net increase/(decrease) in cash and cash equivalents	47,313	362,941	(111,689)	(69,491)	(132,677)
Cash and cash equivalents at the beginning of the year	65,676	112,986	474,663	474,663	362,784
Effect of foreign exchange rate changes	(3)	(1,264)	(190)	52	(592)
Cash and cash equivalents at the end of the year/period	112,986	474,663	362,784	405,224	229,515

Cash Flows from Operating Activities

For the six months ended 30 June 2013, our net cash generated from operating activities amounted to RMB115.8 million, primarily reflecting our profit before taxation of RMB281.5 million, as positively adjusted primarily by (i) an RMB40.6 million increase in trade and other payables, which was primarily a result of our effective usage of credit period offered by our suppliers; (ii) an RMB24.6 million decrease in inventories, which was primarily a result of an improvement in our production efficiency and inventory utilisation; (iii) RMB11.3 million in depreciation and amortization; and (iv) RMB10.6 million in interest expense, offset primarily by (i) an RMB148.1 million increase in trade and other receivables; (ii) an RMB20.5 million increase in pledged deposits; (iii) RMB4.9 million in interest income; and (iv) an RMB2.0 million of unrealized gain on forward foreign exchange contracts.

For the year ended 31 December 2012, our net cash generated from operating activities amounted to RMB422.0 million, primarily reflecting our profit before taxation of RMB431.9 million, as positively adjusted primarily by (i) an RMB67.5 million increase in trade and other payables, which was primarily a result of our effective usage of the credit period offered by our suppliers; (ii) an RMB34.9 million decrease in trade and other receivables, which was primarily a result of our improved collection efforts; (iii) RMB42.1 million in interest expense; and (iv) RMB19.1 million in depreciation and amortization, offset primarily by (i) an RMB61.4 million increase in inventories; (ii) RMB15.4 million in interest income; and (iii) RMB9.2 million in write-back of provision for impairment of trade and bills receivables.

For the year ended 31 December 2011, our net cash generated from operating activities amounted to RMB265.3 million, primarily reflecting our profit before taxation of RMB326.0 million, as positively adjusted primarily by (i) an RMB67.5 million decrease in inventories; (ii) RMB50.3 million in interest expense; (iii) an RMB21.3 million increase in trade and other payables, which was primarily a result of higher payroll payable and receipts in advance; and (iv) RMB11.9 million in depreciation and amortization, offset primarily by (i) an RMB144.0 million increase in trade and other receivables, which was primarily a result of an increase in the sales of our products; and (ii) RMB27.5 million in interest income.

For the year ended 31 December 2010, our net cash used in operating activities amounted to RMB103.6 million, primarily reflecting our profit before taxation of RMB161.0 million, as adjusted primarily by (i) an RMB187.1 million increase in trade and other receivables, primarily as a result of an increase in the sales of our products; (ii) an RMB59.5 million increase in inventories; and (iii) RMB25.5 million in interest income, and partially offset primarily by (i) RMB40.9 million in interest expense, (ii) an RMB9.4 million increase in trade and other payables, which was primarily a result of higher receipts in advance; and (iii) RMB11.2 million in depreciation and amortization.

Cash Flows from Investing Activities

For the six months ended 30 June 2013, our net cash used in investing activities amounted to RMB164.3 million, reflecting cash outflows primarily due to (i) RMB86.0 million in the placement of certain time deposits with original maturity over three months; (ii) RMB77.7 million as the payment for the purchase of other financial assets, which primarily consisted of standard financial products with non-fixed interest rates, offered by licensed banks in the PRC, and (iii) RMB2.3 million as the payment for the purchase of fixed assets, which primarily consisted of machinery and equipment, partially offset by RMB1.7 million in interest received from banks.

For the year ended 31 December 2012, our net cash used in investing activities amounted to RMB56.0 million, reflecting cash outflows primarily due to (i) RMB101.0 million in the placement of certain time deposits with original maturity over three months; and (ii) RMB38.3 million as the cash component of the payment for the purchase of certain fixed assets, which primarily consisted of office buildings and manufacturing facilities, partially offset by (i) RMB4.8 million of proceeds from the disposal of a subsidiary, net of cash disposed of; (ii) RMB23.7 million in time deposits reaching their original stated maturity; (iii) RMB10.3 million in interest received from certain related parties of our Group; and (iv) RMB37.4 million of net repayment from related parties.

For the year ended 31 December 2011, our net cash generated from investing activities amounted to RMB47.8 million, reflecting cash inflows primarily due to (i) net repayment of RMB62.9 million from certain related parties of our Group; and (ii) RMB26.2 million of interest received from certain related parties of our Group. Such cash inflows were partially offset by (i) RMB23.7 million in the placement of certain time deposits with original maturity over three months; and (ii) RMB16.8 million in the payment for the construction and purchase of certain fixed assets, which primarily consisted of plant and machines.

For the year ended 31 December 2010, our net cash generated from investing activities amounted to RMB468.0 million, reflecting cash inflows primarily due to (i) net repayment of RMB492.5 million from certain related parties of our Group; and (ii) RMB24.5 million in interest received from certain related parties of our Group. Such cash inflows were partially offset by RMB50.1 million in the payment for the construction or purchase of certain fixed assets, which primarily consisted of land, plant and manufacturing facilities.

Cash Flows from Financing Activities

For the six months ended 30 June 2013, our net cash used in financing activities amounted to RMB84.2 million, primarily reflecting cash outflows due to (i) dividend paid of RMB173.5 million; (ii) repayment of bank loans and other borrowings of RMB158.0 million; and (iii) RMB10.6 million as interest paid for bank loans, partially offset by cash inflow of RMB257.9 million in proceeds from bank loans and other borrowings.

For the year ended 31 December 2012, our net cash used in financing activities amounted to RMB477.7 million, primarily reflecting cash outflow due to (i) RMB1,030.4 million as repayment of bank loans and other borrowings; (ii) dividends paid of RMB64.9 million; and (iii) RMB42.1 million as interest paid for bank loan, partially offset by cash inflow of RMB608.6 million in proceeds from bank loans and RMB41.5 million capital contribution from the equity owners of our Group.

For the year ended 31 December 2011, our net cash generated from financing activities amounted to RMB49.9 million, primarily reflecting cash inflow of (i) RMB1,052.4 million in proceeds from bank loans and other borrowings; and (ii) RMB37.0 million in proceeds from bank advances for discounted commercial acceptance bills. Such cash inflows were partially offset by (i) repayment of bank loans of RMB893.0 million, (ii) dividend paid of RMB111.1 million; and (iii) RMB48.5 million as interest paid for bank loans.

For the year ended 31 December 2010, our net cash used in financing activities amounted to RMB317.0 million, primarily reflecting cash outflow of (i) RMB1,189.6 million repayment in bank loans; and (ii) RMB40.9 million as interest paid for bank loans. Such cash outflows were partially offset by proceeds from bank loans of RMB919.0 million.

NET CURRENT ASSETS

The following table sets forth details of our current assets and liabilities as at the dates indicated:

	As at 31 December			As at 30 June	As at 31 October
	2010	2011	2012	2013	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Current assets					
Inventories	243,889	177,073	238,525	213,943	237,553
Trade and other receivables.	756,938	683,202	428,422	580,511	790,038
Other financial assets .	–	2,000	–	77,700	13,800
Pledged bank deposits.	16,560	23,368	2,213	22,678	18,652
Fixed deposits at banks with maturity over three months . .	–	23,700	101,000	187,000	190,358
Cash and cash equivalents.	112,986	474,663	362,784	229,515	125,643
Total current assets	1,130,373	1,384,006	1,132,944	1,311,347	1,376,044
Current liabilities					
Bank loans and other borrowings	586,192	780,697	359,000	458,936	428,828
Trade and other payables	283,285	183,464	242,245	307,880	236,224
Current tax payable . .	8,699	36,279	58,783	51,864	68,676
Total current liabilities . .	878,176	1,000,440	660,028	818,680	733,728
Net current assets	**252,197**	**383,566**	**472,916**	**492,667**	**642,316**

Our net current asset increased from RMB492.7 million as at 30 June 2013 to RMB642.3 million as at 31 October 2013. This increase was primarily due to an increase in current assets and a decrease in current liabilities. The increase in current assets mainly included an increase of RMB209.5 million of trade and other receivables due to increased sales of our products, partially offset by a decrease of RMB103.9 million in cash and cash equivalents. The decrease in current liabilities mainly included a decrease of RMB71.7 million of trade and other payables and a decrease of RMB30.1 million in bank loans and other borrowings.

Our net current assets increased by RMB19.8 million, or 4.2%, from RMB472.9 million as at 31 December 2012 to RMB492.7 million as at 30 June 2013. This increase was primarily due to an increase in current assets, partially offset by an increase in current liabilities. The increase in current assets mainly included an increase of RMB152.1 million of trade and other receivables due to the increased sales of our products partially offset by a decrease of RMB133.3 million in cash and cash equivalents. The increase in current liabilities mainly included an increase of RMB99.9 million on bank loans and other borrowings and an increase of RMB65.6 million in trade and other payables.

Our net current assets increased by RMB89.4 million, or 23.3%, from RMB383.6 million as at 31 December 2011 to RMB472.9 million as at 31 December 2012. This increase was primarily due to a decrease in current liabilities, partially offset by a decrease in current assets. The decrease in current liabilities mainly included a decrease of RMB421.7 million in bank loans and other borrowings, partially offset by an increase of RMB58.8 million in trade and other payables. The decrease in current assets mainly included a decrease of RMB254.8 million in trade and other receivables and a decrease of RMB111.9 million in cash and cash equivalents, partially offset by an increase of RMB61.5 million in inventories and RMB77.3 million in fixed deposits at banks with maturity over three months.

Our net current assets increased by RMB131.4 million, or 52.1%, from RMB252.2 million as at 31 December 2010 to RMB383.6 million as at 31 December 2011. This increase was primarily due to an increase in current assets, partially offset by an increase in current liabilities. The increase in current assets mainly included an increase of RMB361.7 million in cash and cash equivalents, partially offset by a decrease of RMB73.7 million in trade and other receivable and a decrease of RMB66.8 million in inventories. The increase in current liabilities included an increase of RMB194.5 million in bank loans and other borrowings, partially offset by a decrease of RMB99.8 million in trade and other payables.

INVENTORY ANALYSIS

During the Track Record Period, inventories were one of the key components of our current assets. Our business depends on our ability to effectively manage and control our inventory levels. The value of our inventories accounted for approximately 21.6%, 12.8%, 21.1% and 16.3% of our total current assets as at 31 December 2010, 2011, 2012 and 30 June 2013, respectively.

The following table sets forth the summary of our balance of inventories as at the respective reporting dates:

	As at 31 December			As at 30 June
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Inventory Type				
Raw materials	135,097	112,042	128,353	104,597
Work in progress	10,419	16,464	25,048	26,395
Finished goods	98,373	48,567	85,124	82,951
Total	**243,889**	**177,073**	**238,525**	**213,943**

Our inventories decreased approximately 10.3% from RMB238.5 million as at 31 December 2012 to RMB213.9 million as at 30 June 2013 primarily due to an improvement in our production efficiency and inventory utilisation. Our inventories increased approximately 34.7% from RMB177.1 million as at 31 December 2011 to RMB238.5 million as at 31 December 2012 primarily because we increased inventory reserves in connection with the expansion of our proprietary outlet network. Our inventories decreased by approximately 27.4% from RMB243.9 million as at 31 December 2010 to RMB177.1 million as at 31 December 2011, primarily because we adopted a vertically integrated business model which expedited our production and delivery cycle and improved our inventory management and average turnover days. Finished goods as at 31 December 2010 were particularly high to accommodate increased sales order expected in January 2011, as Chinese Lunar Year occurred relatively early that year.

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

	As at 31 December			As at 30 June
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Within 3 months	158,032	129,835	199,318	147,539
More than 3 months but within 6 months	28,583	8,604	21,259	42,754
More than 6 months but within 1 year	32,238	14,313	14,816	21,252
More than 1 year	25,036	24,321	3,132	2,398
	243,889	177,073	238,525	213,943

As at 31 October 2013 approximately RMB138.0 million, or 64.5%, of our inventories as at 30 June 2013 had been sold or utilised.

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

	As at 31 December			As at 30 June
	2010	2011	2012	2013
Average inventory turnover days(1)	99.4	67.4	59.3	61.8

Note:

(1) Average inventory turnover days equal to the average of the opening and closing balances of inventories of the relevant year/period divided by cost of sales of the relevant year/period and multiplied by 365 days for the years ended 31 December 2010, 2011 and 2012, or 182 days for the six months ended 30 June 2013.

Average inventory turnover days decreased from 99.4 days as at 31 December 2010 to 67.4 days as at 31 December 2011, and further decreased to 59.3 days as at 31 December 2012 primarily because (i) we enhanced our inventory management measures by effectively utilising a vertically integrated business model, which allowed us to share information among our various departments in the production process and speed up the delivery cycle of our products; and (ii) the portion of our products manufactured by third party subcontractors increased during the Track Record Period. It subsequently increased to 61.8 days as at 30 June 2013 primarily because by gradually taking over the operation of 208 retail outlets that were originally operated by the Related Distributor since July 2012, we increased the number of our proprietary retail outlets and therefore, our average inventory turnover days increased because it generally takes more time to sell products directly to our end customers than to our distributors.

TRADE AND OTHER RECEIVABLES

The following table sets forth a breakdown of our trade and other receivables at the dates indicated:

	As at 31 December			As at 30 June
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables				
– third parties	158,689	313,127	352,272	452,482
– related parties	65,188	59,720	–	–
Bills receivables				
– third parties	220	1,570	17,600	52,649
– related parties	–	37,000	–	–
Less: Provision for impairment	(3,285)	(9,207)	–	–
Trade and bills receivables	**220,812**	**402,210**	**369,872**	**505,131**
Prepayments to suppliers				
– third parties	7,610	36,170	11,237	31,926
– related parties	–	33	–	–
Amount due from immediate and ultimate holding company	55,536	2,182	–	–
Amounts due from related parties	434,013	228,655	–	–
VAT deductible	17,506	–	12,240	12,008
Other prepayments	12,526	8,600	14,638	23,789
Other receivables	9,009	5,426	20,435	6,451
Less: Provision for impairment	(74)	(74)	–	–
Derivative financial instruments	–	–	–	1,206
Trade and other receivables	**756,938**	**683,202**	**428,422**	**580,511**

Trade and Bills Receivables

Our trade and bills receivables primarily relate to receivables for goods sold to our distributors. Our distributors are invoiced within one month after the products are delivered. We recognise turnover from the sales of goods to our distributors when they take possession of our goods. We generally grant credit limits and payment periods of no longer than 90 days to our distributors based on their annual purchase commitment as stipulated in their respective distributorship agreements, their credit history and historical sales performance. See the section headed "Business – Sales and Distribution – Branded Product Sales – Distribution – Payment terms and credit policy" in this prospectus. Our trade and bills receivables increased from RMB369.9 million as at 31 December 2012 to RMB505.1 million as at 30 June 2013 primarily because we generally make more efforts to collect payment from our customers at close to year end. Our trade and bills receivables decreased from RMB402.2 million as at 31 December 2011 to RMB369.9 million as at 31 December 2012 primarily due to our strengthened efforts in collecting payments from our distributors. Our trade and bills receivables increased from RMB220.8 million as at 31 December 2010 to RMB402.2 million as at 31 December 2011 primarily because sales increased significantly and we granted higher credit limit to more distributors.

We require our distributors to comply with our credit policy and our finance and sales departments carry out regular reconciliations of outstanding balances. Our management team monitors our receivable balances on an ongoing basis and will make appropriate assessment on a timely basis as to whether or not a bad debt provision will need to be made. The following table sets forth the aging analysis of our trade and bills receivables as at the dates indicated:

	As at 31 December			As at 30 June
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Within 3 months	199,171	293,967	355,082	462,890
More than 3 months but within 6 months	19,041	74,838	10,456	34,697
More than 6 months but within 1 year	1,911	28,695	4,254	6,921
More than 1 year	689	4,710	80	623
	220,812	**402,210**	**369,872**	**505,131**

At 31 December 2010, 2011, 2012 and 30 June 2013, we have assessed the recoverability of the receivables past due and established a provision for impairment based on experience. The provision for impairment is recorded using a provision account unless we are satisfied that recovery is remote, in which case the unrecovered loss is written against trade receivables and the provision for impairment directly. At 31 December 2012, we have reassessed the credit quality of the trade and bills receivables by using the internal assessment, taking into account the repayment history and financial background of our distributors.

As at the Latest Practicable Date, approximately RMB367.7 million, or 72.8%, of our trade and bills receivables as at 30 June 2013 was settled.

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

	As at 31 December			As at 30 June
	2010	2011	2012	2013
Average turnover days of our trade and bills receivables(1)	52.6	60.8	64.0	64.2

Note:

(1) Average turnover days of our trade and bills receivables equal to the average of the opening and closing balances of trade and bills receivables for the relevant year/period divided by turnover (plus value-added tax) of the relevant year/period and multiplied by 365 days for the years ended 31 December 2010, 2011 and 2012, or 182 days for the six months ended 30 June 2013.

The average turnover days of our trade and bills receivables increased from 52.6 days as at 31 December 2010 to 60.8 days as at 31 December 2011, and further increased to 64.0 days as at 31 December 2012. It remained relatively stable at 64.2 days as at 30 June 2013. Such increase was primarily because our distributors needed more working capital to expand their business. However, most of our trade and bills receivables were within three months during the Track Record Period, which was within our standard credit period.

Prepayments to third-party suppliers

Prepayments to third-party suppliers amounted to RMB7.6 million, RMB36.2 million, RMB11.2 million and RMB31.9 million as at 31 December 2010, 2011, 2012 and 30 June 2013, respectively. Prepayment to third-party suppliers increased from 31 December 2012 to 30 June 2013, primarily due to our efforts to secure more stable supply of raw materials from our suppliers by increasing the amount of our prepayment. Prepayments to third-party suppliers decreased from 31 December 2011 to 31 December 2012, primarily due to the decrease in the number of suppliers that required prepayments in 2012 as a result of our efforts to reduce prepayment conditions. The increase in prepayments to third-party suppliers from 2010 to 2011 was due mainly to our menswear suppliers' request to receive certain prepayments for purchases of the raw materials.

Amounts due from the immediate and ultimate holding company

Amounts due from the immediate and ultimate holding company represent the net proceeds received from the export sales and import purchases by the immediate and ultimate holding company on behalf of our Company. We engaged our immediate and ultimate holding company during the Track Record Period to facilitate the receipts of the proceeds from our overseas OEM/ODM customers and payments to our overseas suppliers primarily because prior to establishing our overseas subsidiary, Hong Kong Fuguiniao, to handle this function, among others, our immediate and ultimate holding company maintained overseas bank accounts which we relied on to facilitate our transactions with our overseas customers and suppliers in an efficient manner. Under this arrangement, when the immediate and ultimate holding company receives the proceeds from our overseas OEM/ODM customers, it would remit such amounts to us. With respect to payments to our overseas suppliers, our immediate and ultimate holding company would make payments on our behalf upon receiving our instructions to do so, and we will subsequently pay such amounts to our immediate and ultimate holding company. The relevant transactions under this arrangement with our immediate and ultimate holding company have been terminated in June 2012 and will not continue after the Listing. Such amounts were unsecured, interest free and repayable on demand and had been settled as of 31 December 2012. These amounts decreased from RMB55.6 million as at 31 December 2010 to RMB2.2 million as at 31 December 2011 predominantly due to the instant remittance by the ultimate holding company to us of the net proceeds.

Amounts due from related parties

Amounts due from related parties represent the advances to related parties. Amounts due from related parties decreased from RMB228.7 million as at 31 December 2011 to RMB Nil as at 31 December 2012 because we called the loans to a related party of our Group as a result of our efforts to reduce borrowings to related parties. These amounts were unsecured and repayable on demand and have been settled as at 31 December 2012. This amount decreased significantly from RMB434.0 million as at 31 December 2010 to RMB228.7 million as at 31 December 2011 as a result of our efforts to reduce borrowings to related parties to our Group.

Other prepayments

Other prepayments mainly include prepayments to advertising companies, rental payments and deposits for projects. Such prepayments increased from RMB14.6 million as at 31 December 2012 to RMB23.8 million as at 30 June 2013 primarily due to the prepayment for display racks, lighting fixtures and marketing materials. It increased from RMB8.6 million as at 31 December 2011 to RMB14.6 million as at 31 December 2012 due to an increase in prepayments for advertising services. Other prepayments decreased from RMB12.5 million as at 31 December 2010 to RMB8.6 million as at 31 December 2011 primarily because project deposits converted into fixed assets at year end.

Other receivables

Other receivables primarily include government grants, deposits and guarantees for bidding projects and individual borrowings. It decreased from RMB20.4 million as at 31 December 2012 to RMB6.5 million as at 30 June 2013, primarily due to the receipt of funds from governmental grants. It increased from RMB5.4 million as at 31 December 2011 to RMB20.4 million as at 31 December 2012, primarily due to the fact that we have not received payment of approximately RMB17.3 million in government grants, which we received in the beginning of 2013. Others decreased from RMB8.9 million as at 31 December 2010 to RMB5.4 million as at 31 December 2011, primarily because of the repayment of individual borrowings by our employees. The following table sets out the amount, nature and criteria/conditions of the government grants we received during the Track Record Period.

Name of the Government Grant	Amount (RMB)	Nature of the Grant	Criteria/Conditions of the Grant
	For the year ended 31 December 2010		
Subsidy from Quanzhou Municipal Finance Bureau for the Technological Transformation and Upgrading	150,000	Government subsidy for technological improvement	(i) Grant recipient must be on a list of subsidized companies attached to "Quan Cai Zhi Biao (2009) No. 1192" (《泉財指標(2009) 1192號》); and (ii) Exact amount of the subsidy would be determined by the local government based on certain predetermined conditions in a particular year.
Subsidy for Export Credit Insurance	176,771	Subsidy for export credit insurance from the local government	The local government grants subsidy based on certain rate of the export credit insurance fee actually paid by the recipient.
Incentive Fees for Export Enterprises	952,900	Incentive fees for export enterprises from the local government	Incentive fees granted to productive enterprises, of which the amount of annual export for the year 2009 was over US$5.0 million. By exporting every US$1.00 worth of products, the potential grant recipient would receive a subsidy in the amount of RMB0.025.

Name of the Government Grant	Amount (RMB)	Nature of the Grant	Criteria/Conditions of the Grant
Incentive Fees to Encourage Export	106,323	Incentive fees to encourage export from the local government	(i) The amount of annual export for the year 2009 was over US$5.0 million and the potential grant recipient was a self-managing export trade company; (ii) The potential recipient was not penalized for violating relevant PRC laws and regulations during the most recent three years; and (iii) The potential recipient submitted relevant data as requested by the local government.
Others(1)	280,212		
Subtotal	**1,666,206**		
	For the year ended 31 December 2011		
Award as National New and High Technology Enterprise	200,000	Award granted for being a national new and high technology enterprise	Acknowledged and determined as a National New and High Technology Enterprise in 2010 by the relevant government authority.
Export Interest Subsidy Reward and Subsidy for Export Credit Insurance	1,372,300	Export interest subsidy reward and subsidy for export credit insurance from the local government	The local government grants the subsidy based on the Interim Measures for the Administration of Import Discount Interest Funds of Fujian Province (《福建省外貿進口貼息資金管理暫行辦法》) and the Interim Measure for the Export Credit Insurance Subsidy (《出口企業出口信用保險保費補貼試行辦法》).

Note:

(1) Includes such government grants the amount of each of which is not larger than RMB100,000.

Name of the Government Grant	Amount (RMB)	Nature of the Grant	Criteria/Conditions of the Grant
			Criteria for export interest subsidy: (i) Principal: The relevant principal for calculating the interest subsidy equals the monetary value of the exported products and technology recorded by the PRC Customs, multiplied by the exchange rate of the underlying currency against Renminbi; and (ii) Interest rate: The rate of the export interest subsidy is determined by the local government based on certain conditions, but not higher than the 50% of RMB benchmark interest rate for loans in the most recent year. **Criteria for subsidy for export credit insurance:** The local government grants the subsidy based on certain rate of the export credit insurance fee actually paid by the recipient.
Others[(2)]	184,916		
Subtotal	**1,757,216**		

Note:

(2) Includes such government grants the amount of each of which is not larger than RMB100,000.

Name of the Government Grant	Amount (RMB)	Nature of the Grant	Criteria/Conditions of the Grant
		For the year ended 31 December 2012	
Subsidy for Export Credit Insurance	581,586	Subsidy for export credit insurance from the local government	**Criteria for subsidy for export credit insurance:** The subsidy shall equal to 50% of the export credit insurance fee actually paid by the recipient.
Incentive Fees for Export Enterprises (including funds for expansion into the global market and supportive funds for the public service platforms for exports of Fujian Province[3])	900,000	Incentive fees for export enterprises from the local government	**Criteria for incentive fees for export enterprises:** (i) The recipient should be a foreign trade enterprise with a minimum import and export volume (as recorded by the relevant PRC Customs) of US$45.0 million in 2011; and (ii) The recipient should be a foreign trade enterprise with a minimum export volume of US$15.0 million in 2011 and owns brands recognised as well-known brands or products recognised as top branded products by the PRC provincial or ministerial authorities, or products exempted from export inspection.

Note:

(3) The Company's footwear design center was recognised by relevant authorities as a public service platform.

Name of the Government Grant	Amount (RMB)	Nature of the Grant	Criteria/Conditions of the Grant
Incentive Fees for IPO	17,303,067	Incentive fees granted to an enterprise seeking initial public offering by the local government Incentive fees for conducting an initial public offering in Hong Kong from the local government	(i) The local government will grant RMB0.3 million to the potential recipient, if it is a PRC joint stock limited company and entered into relevant service providing agreements with qualified professional intermediaries in connection with an IPO; (ii) From the year the recipient was first reported to the Fujian Securities Regulatory Bureau with its intention to seek IPO, to the year it becomes successfully listed as a public company (but no longer than three years), the local government will grant to the recipient a portion of the corporate income tax it had paid as incentive fees; and (iii) The local government will grant RMB0.5 million after the IPO application is submitted to the relevant securities regulatory authority.
Others[(4)]	60,000		
Subtotal	**18,844,653**		

Note:

(4) Includes such government grants the amount of each of which is not larger than RMB80,000.

TRADE AND OTHER PAYABLES

The following table sets forth a breakdown of our trade and other payables at the dates indicated:

	As at 31 December			As at 30 June
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables				
– third parties	87,231	76,001	175,287	109,037
– related parties	787	–	–	–
Bills payables	21,000	13,200	–	112,690
Trade and bills payables	109,018	89,201	175,287	221,727
Receipts in advance				
– third parties	24,589	39,587	19,063	7,025
– related parties	238	12,315	–	–
Amount due to the immediate and ultimate holding company	130,392	–	–	300
Dividend payable	–	–	–	17,200
VAT and other taxes payable	969	9,413	9,571	27,689
Other payable and accruals	18,079	32,948	37,453	33,939
Derivative financial instruments	–	–	871	–
Other payables	174,267	94,263	66,958	86,153
Trade and other payables	**283,285**	**183,464**	**242,245**	**307,880**

Trade and Bills Payables

Our trade and bills payables primarily relate to the purchase of raw materials and finished goods. We generally have credit periods of no longer than 45 days. See "Business – Raw Materials and Suppliers" in this prospectus. Our trade and bills payable increased from RMB175.3 million as at 31 December 2012 to RMB221.7 million as at 30 June 2013 primarily due to our effective usage of the credit period offered by our suppliers and also their increased willingness to accept bills. Our trade and bills payables increased from RMB89.2 million as at 31 December 2011 to RMB175.3 million as at 31 December 2012 primarily due to our effective usage of the credit periods offered by our suppliers. Our trade and bills payables decreased from RMB109.0 million as at 31 December 2010 to RMB89.2 million as at 31 December 2011 primarily because we made an early payment to our suppliers as part of goodwill to maintain relationships in early 2011.

The following table sets forth the aging analysis of our trade and bills payables as at the dates indicated:

	As at 31 December			As at 30 June
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Within 3 months	98,782	86,036	169,815	165,602
More than 3 months but within 6 months	6,739	1,155	4,032	53,945
More than 6 months but within 1 year	2,977	1,167	1,430	1,379
More than 1 year	520	843	10	801
	109,018	**89,201**	**175,287**	**221,727**

As at the Latest Practicable Date, approximately RMB217.1 million, or 97.9%, of our trade and bills payables as at 30 June 2013 was settled.

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

	As at 31 December			As at 30 June
	2010	2011	2012	2013
Average turnover days of our trade and bills payables[1]	53.6	31.7	37.7	54.2

Note:

(1) Average turnover days of our trade and bills payables equal to the average of the opening and closing balances of trade and bills payables for the relevant year/period divided by cost of sales of the relevant year/period and multiplied by 365 days for the years ended 31 December 2010, 2011 and 2012, or 182 days for the six months ended 30 June 2013.

The average turnover days of our trade and bills payables decreased from 53.6 days as at 31 December 2010 to 31.7 days as at 31 December 2011, primarily as a result of an early payment to some of our suppliers as part of goodwill to maintain relationships. The average turnover days of our trade and bills payables increased from 31.7 days as at 31 December 2011 to 37.7 days as at 31 December 2012, primarily as a result of us taking advantage of the credit periods offered by our suppliers in 2012. The average turnover days of our trade and bills payables increased from 37.7 days as at 31 December 2012 to 54.2 days as at 30 June 2013, primarily due to our effective usage of the credit period offered by our suppliers and their increased willingness to accept bills.

Other Payables

Other payables mainly comprise (i) receipts in advance; (ii) amount due to the immediate and ultimate holding company; and (iii) other payables and accruals.

Receipts in advance represent deposits from third parties and related parties. As at 31 December 2010, amounts due to the immediate and ultimate holding company represented dividend payable to the ultimate holding company. Other payables and accruals primarily include salaries, utilities, interests, tax expenses and transportation cost.

Other payables increased from RMB67.0 million as at 31 December 2012 to RMB86.2 million as at 30 June 2013 as a result of the increase of dividend payable and the value-added and other taxes payable as a result of the increased sales of our footwear products. Other payables decreased from RMB94.3 million as at 31 December 2011 to RMB67.0 million as at 31 December 2012 as a result of a decrease in receipts in advance. It decreased from RMB174.3 million as at 31 December 2010 to RMB94.3 million mainly because amount due to the immediate and ultimate holding company was paid off, partially offset by an increase in receipts in advance.

INDEBTEDNESS

Bank loans and other borrowings

Our bank loans primarily consist of short-term working capital loans. As at 31 December 2010, 2011 and 2012, all of our bank loans and other borrowings were repayable within one year. Our outstanding bank loans and other borrowings as at 31 December 2010, 2011, 2012 and 30 June 2013 and 31 October 2013, being the latest practicable date for determining our indebtedness, were as follows:

	As at 31 December			As at 30 June	As at 31 October
	2010	2011	2012	2013	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Bank loans					
– Secured	60,192[(1)]	122,697[(1)]	–	–	–
– Guaranteed	476,000	618,000	359,000	458,936	428,828
– Unsecured	50,000	–	–	–	–
	586,192	740,697	359,000	458,936	428,828
Other borrowings					
– Guaranteed	–	40,000	–	–	–
	586,192	**780,697**	**359,000**	**458,936**	**428,828**

Note:

(1) As at 31 December 2010 and 2011, bank loans, in the amount of RMB50.0 million and RMB106.0 million respectively, were guaranteed by Shishi Fuguiniao and secured by trade and bills receivables of our Group and our Company.

The above bank loans and other borrowings are mainly denominated in RMB. The bank loans and other borrowings bear fixed interest rates ranging from 2.88% to 5.81% per annum and variable interest rates ranging from 5.31% to 5.81% per annum for the year ended 31 December 2010, fixed interest rates ranging from 3.38% to 9.60% per annum and variable interest rates ranging from 6.31% to 7.54% per annum for the year ended 31 December 2011, fixed interest rates ranging from 5.40% to 7.45% per annum for the year ended 31 December 2012 and fixed interest rates ranging from 2.41% to 6.30% per annum for the six months ended 30 June 2013. Because of short maturity, the carrying amounts of current bank loans and other borrowings approximate their fair values.

As at 31 October 2013, being the latest practicable date for purpose of indebtedness statement in this prospectus, we had RMB1,460.0 million of credit facilities made available to us, of which RMB503.2 million were utilised, including RMB74.4 million utilised for issuing bank acceptance bills. Our Directors confirm that our Group did not experience any difficulty in obtaining credit facilities, withdrawal of facilities, default in payment of bank borrowings or breach of covenants, or cancellation of customer order or customer default during the Track Record Period and up to the Latest Practicable Date.

As at 31 October 2013, being the latest practicable date for purpose of indebtedness statement in this prospectus, RMB228.8 million of our bank loans were guaranteed by the shareholders of the ultimate holding company and RMB200.0 million were jointly guaranteed by shareholders of the ultimate holding company and Shishi Fuguiniao. Such guarantees will be fully released upon Listing.

As at 30 June 2013, RMB258.9 million of our bank loans were guaranteed by the shareholders of the ultimate holding company and RMB200.0 million of which were jointly guaranteed by the shareholders of the ultimate holding company and Shishi Fuguiniao.

As at 31 December 2012, RMB201.0 million of our bank loans were guaranteed by the shareholders of the ultimate holding company and RMB158.0 million were jointly guaranteed by the shareholders of the ultimate holding company and Shishi Fuguiniao.

As at 31 December 2011, RMB122.7 million of our bank loans were secured by trade and bills receivables and pledged bank deposits, including RMB106.0 million, which was secured by our trade and bills receivables and guaranteed by Shishi Fuguiniao. In addition, RMB618.0 million of our bank loans were guaranteed, of which RMB103.0 million were guaranteed by Shishi Fuguiniao, RMB208.0 million were guaranteed by the shareholders of the ultimate holding company and RMB307.0 million were jointly guaranteed by the shareholders of the ultimate holding company and Shishi Fuguiniao. Lastly, RMB40.0 million of other borrowings were jointly guaranteed by shareholders of the ultimate holding company and Shishi Fuguiniao as at 31 December 2011.

As at 31 December 2010, we had bank loans of RMB60.2 million, which were secured by our trade and bills receivables and pledged bank deposits, including RMB50.0 million which was secured by our trade and bills receivables and guaranteed by Shishi Fuguiniao. We also had bank loans of RMB476.0 million which were guaranteed, including RMB253.0 million were guaranteed by the shareholders of the ultimate holding company and RMB223.0 million were jointly guaranteed by the shareholders of the ultimate holding company and Shishi Fuguiniao.

Except as described above, we did not have, as at 31 October 2013, any outstanding mortgages, charges, debentures, other debt capital (issued or agreed to be issued), liabilities under acceptance or other similar indebtedness, hire purchase and finance lease commitments, any guarantees or other material contingent liabilities.

Our Directors confirm that there has not been any material change in our indebtedness since 31 October 2013.

COMMITMENTS

Operating Lease Commitments

During the Track Record Period, we leased a number of properties under operating leases, including our proprietary retail outlets, office buildings and warehouses. The leases are typically negotiated and fixed for terms ranging from one to ten years, at the end of which period all terms will be renegotiated. The table sets forth our outstanding commitments in respect of non-cancellable operating leases as at the dates indicated:

	As at 31 December			As at 30 June	As at 31 October
	2010	**2011**	**2012**	**2013**	**2013**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
Within 1 year	5,989	5,476	7,458	7,797	7,574
After 1 year but within 5 years	18,075	13,680	19,369	23,812	20,307
After 5 years.	–	–	13,981	12,467	9,717
	24,064	**19,156**	**40,808**	**44,076**	**37,598**

The substantial increase in our operating lease for the year ended 31 December 2012 from the previous years was primarily because of certain office buildings and increased number of proprietary retail outlets we leased in 2012.

CONTINGENT LIABILITIES

As at 31 December 2011, we provided a corporate guarantee of RMB200.0 million to a related company, Fujian Fuguiniao Mining Group Company Limited (福建省富貴鳥礦業集團有限公司), for its banking facilities. We did not recognise any deferred income in respect of the guarantee issued as its fair value was not reliably estimable and the guaranteed amount was insignificant. During the Track Record Period, no claims have been made against us under the guarantee.The guarantee was released on 30 June 2012.

As at 31 October 2013, we did not have any material contingent liabilities or guarantees. We are not currently involved in any material litigation or claims of material importance, nor are we aware of any pending or threatened against any member of our Group.

Our Directors have confirmed that there has not been any material change in the contingent liabilities of our Group since 31 October 2013.

LISTING EXPENSES

We incurred total listing expenses of approximately RMB9.4 million in relation to the preparation of the Global Offering and Listing during the Track Record Period, and expect to incur an additional RMB57.1 million of expenses until the completion of the Global Offering and Listing. Approximately 59% of the listing expenses, or approximately RMB39.2 million in relation to the issue of the Shares are expected to be capitalised. Our Directors have emphasized that such cost is a current estimate for reference only. The final amount to be recognised to the consolidated statement of comprehensive income of our Group or to be capitalised is subject to adjustment based on the actual amount of expenses incurred/to be incurred by our Group upon the completion of the Global Offering and Listing. We do not believe such listing expenses will have a material impact on our business and results of operations for the year ending 31 December 2013.

CAPITAL EXPENDITURES

Our capital expenditures have principally consisted of expenditures on property, plant and equipment and interest in leasehold land held for own use under operating leases. For the years ended 31 December 2010, 2011, 2012 and the six months ended 30 June 2013, we incurred capital expenditures in the amounts of RMB49.3 million, RMB23.4 million, RMB138.1 million and RMB2.1 million, respectively. The following table sets out our historical capital expenditures during the periods indicated:

	Year ended 31 December			Six months ended 30 June
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Property, plant and equipment	15,973	23,362	80,471	2,079
Interest in leasehold land held for own use under operating leases	33,297	–	57,644	–
Total	**49,270**	**23,362**	**138,115**	**2,079**

The capital expenditure incurred for the six months ended 30 June 2013, primarily related to the purchase of machinery, equipment and motor vehicles. The capital expenditure incurred in the year ended 31 December 2012 primarily related to the purchase of a manufacturing facility and land, office furniture and equipment. The capital expenditures incurred in the year ended 31 December 2011 primarily related to construction in progress of our industrial park at Hongshan and a dormitory in one of our manufacturing facilities that commenced construction in 2010, and purchase of production equipment. The capital expenditures incurred in the year ended 31 December 2010 primarily related to construction in progress of our industrial park at Hongshan and a dormitory in one of our manufacturing facilities, purchase of production equipment and expenses incurred in connection with the operation of our proprietary outlets.

As part of our future growth strategy, we currently expect to incur an additional RMB21.0 million in capital expenditures in the year ending 31 December 2013 for the establishment of additional proprietary outlets, the expansion of our design, research and development center and installment of information systems, including, among others, ERP system and DRP system.

We anticipate that our planned capital expenditures will be financed by cash generated from our operations, net proceeds from the Global Offering and bank loans. The estimated amounts of expenditures set out above may vary from the actual amounts of expenditures for a variety of reasons, including changes in market conditions, competition, and other factors.

Our current plan with respect to future capital expenditures is subject to change based on the evolution of our business plan, including potential acquisitions, the progress of our capital projects, market conditions and our outlook of future business conditions. As we continue to expand, we may incur additional capital expenditures. Our ability to obtain additional funding in the future is subject to a variety of uncertainties including our future results of operations, economic, political and other conditions in the PRC, PRC government policies relating to our industry and relevant rules and regulations in the PRC and Hong Kong regarding debt and equity financing. Other than as required by law, we do not undertake any obligation to publish updates of our capital expenditure plans. See "Forward-Looking Statements" in this prospectus.

OFF-BALANCE SHEET ARRANGEMENTS

As at the Latest Practicable Date, we did not have any off-balance sheet arrangements or contingencies.

WORKING CAPITAL

Our Directors are of the opinion that, after taking into consideration of the financial resources presently available to us, including the cash generated from operations and the estimated net proceeds from the Global Offering, we have sufficient working capital for our present working capital requirements and for the next 12 months from the date of this prospectus.

KEY FINANCIAL RATIOS

The following table sets forth certain additional financial ratios of our Group and our management's discussion on material fluctuations as of and for the dates indicated.

	As at/for the Year ended 31 December			Six months ended 30 June
	2010	2011	2012	2013
Return on equity[(1)]	24.9%	40.9%	40.4%	25.8%
Return on total assets[(2)]	8.8%	15.7%	22.1%	12.8%
Current ratio[(3)]	128.7%	138.3%	171.7%	160.2%
Quick ratio[(4)]	100.9%	120.6%	135.5%	134.0%
Gearing ratio[(5)]	122.9%	125.9%	44.8%	56.6%
Debt to equity ratio[(6)]	99.2%	49.3%	N/A	28.3%
Interest coverage[(7)]	4.9	7.5	11.3	27.5

Notes:

(1) Return on equity ratio is calculated by dividing profit and total comprehensive income for the year/period by total equity at the end of the year/period and multiplying by 100%.

(2) Return on total assets ratio is calculated by dividing profit and total comprehensive income for the year/period by total assets at the end of the year/period and multiplying by 100%.

(3) Current ratio is calculated by dividing total current assets at the end of the year/period by total current liabilities at the end of the year/period and multiplying by 100%.

(4) Quick ratio is calculated by dividing the difference between total current assets and inventories at the end of the year/period by total current liabilities at the end of the year/period and multiplying by 100%.

(5) Gearing ratio is calculated by dividing the total bank loans and other borrowings at the end of the year/period by total equity at the end of the year/period and multiplying by 100%.

(6) Debt to equity ratio is calculated by dividing total bank loans and other borrowings net of cash and cash equivalents at the end of the year/period by total equity at the end of the year/period and multiplying by 100%.

(7) Interest coverage is calculated by dividing the profit before finance costs and income tax expenses for the year/period by total finance costs for the year/period.

Analysis of Selected Key Financial Ratios

Return on Equity

Our return on equity ratio was 25.8% for the six months ended 30 June 2013. On an annualised basis, our return on equity ratio was 51.6%[(1)]. This was primarily due to a greater increase in our profit relative to a slight increase in our total equity.

Our return on equity ratio remained relatively stable for the years ended 31 December 2011 and 2012.

Our return on equity ratio increased from 24.9% for the year ended 31 December 2010 to 40.9% for the year ended 31 December 2011, primarily as a result of an increase in our profit as a result of the commencement and quick expansion of our menswear business in 2011.

Note:

(1) Annualised return on equity ratio is calculated by multiplying the return on equity ratio for the six months ended 30 June 2013 by two.

Return on Total Assets

Our return on total assets ratio was 12.8% for the six months ended 30 June 2013. On an annualised basis, our return on assets ratio was 25.6%[(1)], which was comparable to that for the year ended 31 December 2012.

Our return on total assets ratio increased from 15.7% for the year ended 31 December 2011 to 22.1% for the year ended 31 December 2012, primarily as a result of increased net profits and a decrease in our total assets due to effective management of our working capital.

Note:

(1) Annualised return on total assets ratio is calculated by multiplying the return on total assets ratio for the six months ended 30 June 2013 by two.

Our return on total assets ratio increased from 8.8% for the year ended 31 December 2010 to 15.7% for the year ended 31 December 2011, primarily as a result of an increase in our profit due to the commencement and expansion of our menswear business, partially offset by slight increase in our total assets.

Current Ratio

Our current ratio decreased from 171.7% as at 31 December 2012 to 160.2% as at 30 June 2013, primarily due to an increase in bank loans and other borrowings and trade and other receivables.

Our current ratio increased from 138.3% as of 31 December 2011 to 171.7% as of 31 December 2012, primarily as a result of substantial decrease in current liabilities due to payments of bank loans and other borrowings.

Our current ratio increased from 128.7% as of 31 December 2010 to 138.3% as of 31 December 2011, primarily as a result of an increase in current assets in the form of cash deposited with commercial banks.

Quick Ratio

Our quick ratio remained relatively stable with a slight decrease from 135.5% as at 31 December 2012 to 134.0% as at 30 June 2013.

Our quick ratio increased from 120.6% as of 31 December 2011 to 135.5% as of 31 December 2012, primarily as a result of payments of bank loans and other borrowings.

Our quick ratio increased from 100.9% as of 31 December 2010 to 120.6% as of 31 December 2011, primarily as a result of an increase in current assets in the form of cash deposited with commercial banks.

Gearing Ratio

Our gearing ratio increased from 44.8% as at 31 December 2012 to 56.5% as at 30 June 2013, primarily as a result of an increase in bank loans and other borrowings.

Our gearing ratio decreased from 125.9% as of 31 December 2011 to 44.8% as of 31 December 2012, primarily as a result of an increase in our total equity and a decrease in our bank borrowings.

Our gearing ratio increased from 122.9% as of 31 December 2010 to 125.9% as of 31 December 2011, primarily as a result of an increase in bank loans and other borrowings.

QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISKS

We are exposed to various types of market risks in the ordinary course of our business, including credit, liquidity, interest rate and currency risks. We manage our exposure to these and other market risks through our financial management policies and practices described below.

Credit Risks

Our credit risk is primarily attributable to trade and other receivables, deposits with banks and other financial assets. We have a credit policy in place and the exposures to the credit risks are monitored on an ongoing basis.

Trade and Other Receivables

Credit evaluations are performed on customers requiring credit terms. These evaluations focus on the customer's past history of making payments and current abilities to pay and take into account information specific to the customer as well as to the economic environment. Normally, we do not obtain collateral from customers.

Our exposure to credit risk is influenced mainly by the individual characteristics of each customer and therefore significant concentrations of credit risk primarily arise when we have significant exposure to individual customers. As at 31 December 2010, 2011, 2012 and 30 June 2013, 29.5%, 24.0%, nil and 5.3% of our total trade and bills receivables were due from our largest customer, respectively, and 51.5%, 37.2%, 14.3% and 14.3% of our total trade and bills receivables were due from our five largest customers, respectively.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statement of financial position after deducting any impairment allowance. Except for the financial guarantees given by us, we do not provide any other guarantees which would expose us to credit risk.

In addition, as at 31 December 2010, 2011, 2012 and 30 June 2013, we had discounted or endorsed certain bank acceptance bills with recourse amounted to RMB4.5 million, RMB8.3 million, RMB209.1 million and RMB44.9 million, respectively, and the respective receivables were de-recognised upon discounting or endorsement. Our maximum loss in case of default is the face value of the discounted bills. As we only accept bank acceptance bills from major banks in the PRC, management considered that the credit risk of these bills is minimal.

Deposits with Banks and Forward Contracts

We mitigate our exposure to credit risk by placing deposits with financial institutions with established credit rating and by entering into forward contracts with counterparties of sound credit standing and with whom we have a signed netting agreement. Given their high credit standing, management does not expect any counterparty to fail to meet its obligations.

Other financial assets

We invested in certain unlisted wealth management products issued by banks in the PRC. The management considers the counterparties are banks with high credit rating and the default risk is remote.

Liquidity Risk

We are responsible for the cash management of all companies comprising our Group, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands. Our policy is to regularly monitor liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer terms.

All of our non-interest bearing financial liabilities are carried at amount not materially different from our contractual undiscounted cash flow as all the financial liabilities are with maturities within one year or repayable on demand at the end of the respective reporting period.

The following tables show the remaining contractual maturities at the end of the reporting period of our non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the each of the reporting period) and the earliest date we can be required to pay:

	Total contractual undiscounted cash flow/within one year or on demand	Carrying amount on consolidated statement of financial position
	RMB'000	RMB'000
At 31 December 2010		
Bank loans and other borrowings	603,595	586,192
Trade and bills payables	109,018	109,018
Amount due to the immediate and ultimate holding company	130,392	130,392
Other payables and accruals	18,079	18,079
	861,084	843,681
At 31 December 2011		
Bank loans and other borrowings	799,960	780,697
Trade and bills payables	89,201	89,201
Other payables and accruals	32,948	32,948
	922,109	902,846
At 31 December 2012		
Bank loans and other borrowings	368,697	359,000
Trade and bills payables	175,287	175,287
Other payables and accruals	37,453	37,453
Derivative financial instruments	871	871
	582,308	572,611
As at 30 June 2013		
Bank loans and other borrowings	472,715	458,936
Trade and bills payables	221,727	221,727
Dividend payable	17,200	17,200
Other payables and accruals	34,239	34,239
	745,881	732,102

Interest Rate Risk

Our interest rate risk arises primarily from bank loans and other borrowings. Borrowings that are at variable rates and at fixed rates expose us to cash flow interest rate risk and fair value interest rate risk respectively. Our interest rate profiles as monitored by management is set out below.

Interest Rate Profile

The following table details the interest rate profile of our borrowings at the balance sheet dates:

	As at 31 December						As at 30 June	
	2010		2011		2012		2013	
	Effective interest rate	Amount	Effective interest rate	Amount	Effective interest rate	Amount	Effective interest rate	Amount
		RMB'000		RMB'000		RMB'000		RMB'000
Fixed rate instruments:								
Bank loans.	2.88%-5.81%	476,192	3.38%-9.60%	528,697	5.40%-7.54%	359,000	2.41%-6.30%	458,936
Variable rate instruments:								
Bank loans and other borrowings.	5.31%-5.81%	110,000	6.31%-7.54%	252,000	–	–	–	–
Total instruments . .		586,192		780,697		359,000		458,936

Sensitivity Analysis

At 31 December 2010, 2011 and 2012 and 30 June 2013, it is estimated that a general increase/decrease of 100 basis points in borrowing interest rates, with all other variables held constant, would have decreased/increased our profit after tax and retained profits by approximately RMB0.8 million, RMB1.9 million, RMB Nil and RMB Nil, respectively. Other components of equity would not be affected by the changes in interest rates.

The sensitivity analysis above indicates the impact on our profit for the year and retained profits that would arise assuming that there is an annualised impact on interest expense by a change in interest rates. The analysis has been performed on the same basis throughout the Track Record Period.

Currency Risk

We are exposed to currency risk primarily through sales and purchases which give rise to receivables and borrowings and cash balances that are denominated in a foreign currency other than RMB. The currencies giving rise to this risk are primarily U.S. dollars and Euros.

We ensure that the net exposure is kept to an acceptable level, by buying or selling foreign currencies at spot rate, or entering into forward contracts to hedge against currency risk where necessary to address short-term imbalances. The forward contracts were entered in anticipation of forecasted export sale transactions.

Exposure to Currency Risk

The following table details our major exposure as at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in Renminbi, translated using the spot rate at the end of the the reporting period.

	As at 31 December						As at 30 June	
	2010		2011		2012		2013	
	US$	Euro	US$	Euro	US$	Euro	US$	Euro
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cash and cash equivalents. . .	26,003	1	13,306	4,130	3,005	6,528	2,235	13,474
Trade and other receivables. . .	72,603	–	28,318	–	24,460	3,885	–	1,263
Bank loans and other borrowings . . .	(10,192)	–	(16,697)	–	–	–	(18,536)	–
Trade and other payables	(1,770)	–	(363)	–	(444)	(351)	(1,626)	(109)
Notional amount of forward contracts	(228,313)	–	(315,045)	(16,325)	–	(58,223)	–	(52,348)
Net exposure to currency risk. .	(141,669)	1	(290,481)	(12,195)	27,021	(48,161)	(17,927)	(37,720)

Sensitivity Analysis

The following table indicates the instantaneous change in our profit after tax (and equity) that would arise if the foreign exchange rates to which we have significant exposure as at years ended 31 December 2010, 2011 and 2012 had changed, assuming all other risk variables remained constant.

	As at 31 December						As at 30 June	
	2010		2011		2012		2013	
	Increase/ (decrease) in foreign exchange rates in %	Effect on profit after tax and equity	Increase/ (decrease) in foreign exchange rates in %	Effect on profit after tax and equity	Increase/ (decrease) in foreign exchange rates in %	Effect on profit after tax and equity	Increase/ (decrease) in foreign exchange rates in %	Effect on profit after tax and equity
		RMB'000		RMB'000		RMB'000		RMB'000
US$.	1	(1,063)	1	(2,179)	1	203	1	(134)
	(1)	1,063	(1)	2,179	(1)	(203)	(1)	134
Euro	1	–	1	(91)	1	(359)	1	(274)
	(1)	–	(1)	91	(1)	359	(1)	274

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of our entities' profit after tax and equity measured in the respective functional currencies, translated into Renminbi at the exchange rate ruling at the end of the reporting period for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by us which expose us to foreign currency risk as at the years ended 31 December 2010, 2011, 2012 and the six months ended 30 June 2013, including inter-company payables and receivables within us which are denominated in a currency other than the functional currencies of the lender or the borrower.

PROFIT FORECAST

For the purpose of illustrating the effect of the Global Offering as if it had taken place on 1 January 2013, our unaudited pro forma forecast earnings per Share for the year ending 31 December 2013 have been prepared on the basis of the notes set out below. This unaudited pro forma forecast earnings per Share has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not provide a true picture of our financial results for the year ending 31 December 2013 or for any future period.

Forecast consolidated profit attributable to equity shareholders of our Company
for the year ending 31 December 2013(1) . . . . .not less than RMB402.8 million
(approximately HK$509.0 million)

Unaudited pro forma forecast earnings per Share
for the year ending 31 December 2013(2)(3) . . . . .not less than RMB0.76
(approximately HK$0.95)

Notes:

(1) The bases and assumptions on which the above profit forecast has been prepared are summarised in Part A of Appendix III to this prospectus. The Directors have prepared the forecast consolidated profit attributable to equity shareholders of our Company for the year ending 31 December 2013 based on the audited consolidated results for the six months ended 30 June 2013, the unaudited consolidated results based on management accounts of our Group for the three months ended 30 September 2013 and a forecast of the consolidated results of our Group for the remaining three months ending 31 December 2013.

(2) The calculation of the unaudited pro forma forecast earnings per Share is based on the forecast consolidated results for the year ending 31 December 2013 attributable to equity shareholders of our Company, assuming that a total of 533,340,000 Shares had been in issued during the entire year. The calculation of the forecast earnings per Share does not take into account any shares which may be issued upon the exercise of the Over-allotment Option.

(3) The forecast consolidated profit attributable to equity shareholders of our Company and the unaudited pro forma forecast earnings per Share are converted into HK$ at the exchange rate of RMB0.7914 to HK$1.00, the PBOC rate on the exchange rate prevailing on 3 December 2013 set by PBOC for foreign exchange transactions.

DIVIDEND POLICY

The payment and the amount of any dividends, if paid, will depend on the results of operations, cash flows, financial condition, statutory and regulatory restrictions on the payment of dividends by us, future prospects and other factors that we may consider relevant. Holders of the Shares will be entitled to receive such dividends pro rata according to the amounts paid up or credited as paid up on the Shares. The declaration, payment and amount of dividends will be subject to our discretion.

Dividends may be paid only out of our distributable profits' as permitted under the relevant laws. To the extent profits are distributed as dividends, such portion of profits may not be reinvested in our operations. There can be no assurance that we will be able to declare or distribute any dividend in the amount set out in any plan of the Board or at all. The past dividend distribution record may not be used as a reference or basis in determining the level of dividends that may be declared or paid by us in the future.

In 2010, 2011 and 2012, we declared dividends in the amount of RMB130.4 million, RMB130.7 million and RMB152.4 million, respectively. On 28 June 2013, we declared dividends in the amount of RMB200.0 million, of which, RMB17.2 million have not yet been paid as at the Latest Practicable Date. All declared and unpaid dividends will be settled prior to the Listing Date through our internal funds. Subject to the factors described above, our Board of Directors intends to recommend at the relevant shareholders meetings an annual dividend of no less than 20% of our profit for the year available for distribution to the shareholders in the foreseeable future.

DISTRIBUTABLE RESERVES

As at 30 June 2013, we had distributable reserves of RMB221.4 million, which is available for distribution to our equity shareholders. Pursuant to a resolution passed by the Board of Directors on 28 June 2013, a final dividend amounting to RMB200.0 million was declared. The dividend has been recognised as liability as at 30 June 2013.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The unaudited pro forma statement of adjusted net tangible assets has been prepared in accordance with Rule 4.29 of the Listing Rules and is to show the effect of the Global Offering as if it had taken place on 30 June 2013 assuming the Over-allotment Option is not exercised. The statement has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of our financial position as of 30 June 2013 or at any future dates following the Global Offering.

	Consolidated net tangible assets attributable to equity shareholders of our Company as of 30 June 2013(1)	Estimated net proceeds from the Global Offering(2)	Unaudited pro forma adjusted net tangible assets	Unaudited pro forma adjusted net tangible assets per Share(3)	
	RMB'000	RMB'000	RMB'000	RMB	HK$
Based on the Offer Price of HK$7.17 per Offer Share . . .	810,542	695,830	1,506,372	2.82	3.57
Based on the Offer Price of HK$10.04 per Offer Share . .	810,542	987,301	1,797,843	3.37	4.26

Notes:

(1) The consolidated net tangible assets of our Group attributable to the equity shareholders of our Company as of 30 June 2013, was derived from the consolidated financial information as set out in the accountants' report in Appendix I to this prospectus.

(2) The estimated net proceeds from the Global Offering are based on the Offer Shares and the Offer Price of HK$7.17 or HK$10.04 per Offer Share, being the low-end and high-end of the indicative Offer Price range, respectively, after deducing the underwriting fees and other related expenses, and does not any H Shares that may be issued upon exercise of the Over-allotment Option. For the purpose of the estimated net proceeds from the Global Offering, the translation of RMB into HK$ was made at the rate of RMB0.7914 to HK$1.00, the exchange rate prevailing on 3 December 2013 set by PBOC for foreign exchange transactions.

(3) The unaudited pro forma net tangible assets per Share is calculated based on 533,334,400 Shares, being the number of shares in issue immediately following the completion of the Global Offering without taking into account any H Shares that may be issued upon exercise of the Over-allotment Option.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors have confirmed that, as of the Latest Practicable Date, there are no circumstances that would have given rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that except as otherwise disclosed in the prospectus, as of the date of this prospectus, there has been no material adverse change in our financial, trading or operational position since 30 June 2013 and no event has occurred since 30 June 2013 that would materially and adversely affect the information shown in the "Appendix I – Accountants' Report" of this prospectus.