

N&Q

福建諾奇股份有限公司
Fujian Nuoque Co., Ltd.

*(a joint stock limited liability company incorporated
in the People's Republic of China)*

Stock Code : 1353



Sole Global Coordinator and Sole Sponsor



Joint Bookrunners and Joint Lead Managers



GLOBAL OFFERING

IMPORTANT

If you are in any doubt about any of the contents of this prospectus, you should consult your stockbroker, bank manager, solicitor, professional accountant or other professional adviser.

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福建諾奇股份有限公司
Fujian Nuoqi Co., Ltd.

(a joint stock limited liability company incorporated in the People's Republic of China)

GLOBAL OFFERING

Number of Offer Shares under the Global Offering : 150,000,000 H Shares (subject to adjustment and the Over-allotment Option)
Number of Hong Kong Public Offer Shares : 15,000,000 H Shares (subject to adjustment)
Number of International Offer Shares : 135,000,000 H Shares (subject to adjustment and the Over-allotment Option)
Maximum Offer Price : HK\$2.88 per H Share (payable in full on application, plus a brokerage of 1.0%, an SFC transaction levy of 0.003% and a Hong Kong Stock Exchange trading fee of 0.005% and subject to refund)
Nominal value : RMB0.20 per H Share
Stock code : 1353

Sole Global Coordinator and Sole Sponsor



Joint Bookrunners and Joint Lead Managers



Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in the section headed "Documents delivered to the Registrar of Companies in Hong Kong" in Appendix IX to this prospectus, has been registered by the registrar of companies in Hong Kong as required by Section 342C of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission of Hong Kong and the Registrar of Companies in Hong Kong take no responsibility as to the contents of this prospectus or any other documents referred to above.

The Offer Price is expected to be fixed by agreement between the Joint Bookrunners (for themselves and on behalf of the Underwriters) and us on the Price Determination Date. The Price Determination Date is expected to be on or around Friday, 3 January 2014 and, in any event, not later than Monday, 6 January 2014. The Offer Price will not be more than HK\$2.88 and is currently expected to be not less than HK\$2.03. Investors applying for Hong Kong Offer Shares must pay, on application, the maximum Offer Price of HK\$2.88 for each H Share together with a brokerage of 1.0%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%.

The Joint Bookrunners, on behalf of the Underwriters, may, with our consent, reduce the number of Offer Shares and/or the indicative offer price range below that stated in this prospectus (which is HK\$2.03 to HK\$2.88 per H Share) at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such case, notices of the reduction in the number of Offer Shares and/or the indicative offer price range will be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. Such notice will also be available at the website of the Hong Kong Stock Exchange at www.hkexnews.hk and our website at www.nuoqi.com.hk. If applications for the Hong Kong Offer Shares have been submitted prior to the last day for lodging applications under the Hong Kong Public Offering, then even if the number of Offer Shares and/or the indicative offer price range is so reduced, such applications cannot be subsequently withdrawn.

If, for any reason, the Joint Bookrunners (on behalf of the Underwriters) and we are unable to reach an agreement on the Offer Price by Monday, 6 January 2014, the Global Offering will not become unconditional and will lapse immediately.

The Offer Shares have not been and will not be registered under the U.S. Securities Act or any state securities law in the United States and may not be offered, sold, pledged or transferred within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and applicable U.S. state securities laws. The Offer Shares are being offered and sold outside the United States in reliance on Regulation S under the U.S. Securities Act and the applicable laws of each jurisdiction where those offers and sales occur.

We are incorporated, and all of our businesses are located, in the PRC. Potential investors should be aware of the differences in the legal, economic and financial systems between the PRC and Hong Kong, and the fact that there are different risks relating to investment in PRC incorporated companies. Potential investors should also be aware that the regulatory framework in the PRC is different from the regulatory framework in Hong Kong, and should take into consideration the different market nature of the H Shares. Such differences and risk factors are set forth in the sections headed "Risk Factors" and "Appendix VII — Summary of Certain Legal and Regulatory Matters" in this prospectus.

EXPECTED TIMETABLE⁽¹⁾

Our Company will issue an announcement in Hong Kong to be published in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) if there is any change in the following expected timetable⁽¹⁾ of the Hong Kong Public Offering.

Latest time to complete electronic applications under the White Form eIPO service through the designated website www.eipo.com.hk ⁽²⁾	11:30 a.m. on Friday, 3 January 2014
Application lists open ⁽³⁾	11:45 a.m. on Friday, 3 January 2014
Latest time for lodging WHITE and YELLOW Application Forms	12:00 noon on Friday, 3 January 2014
Latest time to complete payment of White Form eIPO applications effecting internet banking transfer(s) or PPS payment transfer(s)	12:00 noon on Friday, 3 January 2014
Application lists close ⁽²⁾	12:00 noon on Friday, 3 January 2014
Expected Price Determination Date ⁽⁴⁾	Friday, 3 January 2014
Announcement of the Offer Price, the indication of the levels of interest in the International Offering, the results of applications in respect of the Hong Kong Public Offering and the results and basis of allotment under the Hong Kong Public Offering (with successful applicants' identification document numbers, where applicable) to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on or before	Wednesday, 8 January 2014
Results of allocations in the Hong Kong Public Offering (with successful applicants' identification document numbers, where appropriate) to be available through a variety of channels as described in the section entitled "How to Apply for the Hong Kong Public Offer Shares — Publication of Results" in this prospectus from	Wednesday, 8 January 2014
Results of allocations in the Hong Kong Public Offering will be available at www.iporesults.com.hk with a "search by ID" function	Wednesday, 8 January 2014
Despatch of H Share certificates in respect of wholly or partially successful applications pursuant to the Hong Kong Public Offering on or before ⁽⁵⁾	Wednesday, 8 January 2014
Despatch of e-Refund payment instructions/refund cheques in respect of wholly successful (if applicable) or wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offering on or before ⁽⁶⁾	Wednesday, 8 January 2014
Dealings in H Shares on the Hong Kong Stock Exchange to commence on	Thursday, 9 January 2014

EXPECTED TIMETABLE⁽¹⁾

- (1) *All times refer to Hong Kong local time. Details of the structure of the Global Offering, including its conditions, are set out in the section headed “Structure of the Global Offering” in this prospectus.*
- (2) *You will not be permitted to submit your application to the **White Form eIPO** Service Provider through the designated website, www.eipo.com.hk, after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained a payment reference number from the designated website before 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.*
- (3) *If there is a “black” rainstorm warning or a tropical cyclone warning signal number 8 or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, 3 January 2014, the application lists will not open and close on that day. Further information is set out in the subsection headed “9. Effect of bad weather on the opening of the application lists” under the section headed “How to apply for Hong Kong Public Offer Shares” in this prospectus. If the application lists do not open and close on Friday, 3 January 2014, the dates mentioned in this section may be affected. A press announcement will be made by our Company in such event.*
- (4) *Neither our Company’s website nor any of the information contained on our Company’s website forms part of this prospectus.*
- (5) *H Share certificates for the Hong Kong Public Offer Shares are expected to be issued on Wednesday, 8 January 2014 but will only become valid certificates of title provided that (i) the Global Offering has become unconditional in all respects, and (ii) the right of termination as described in the paragraph headed “Grounds for termination” under the section headed “Underwriting” in this prospectus has not been exercised and has lapsed. Investors who trade the H Shares on the basis of publicly available allocation details before the receipt of their H Share certificates or before the H Share certificates becoming valid certificates of title do so entirely at their own risk.*
- (6) *Refund cheques will be issued in respect of wholly or partially unsuccessful applications and in respect of successful applications if the Offer Price is less than the price payable on application.*

For further details in relation to the Hong Kong Public Offering, see the sections headed “How to Apply for Hong Kong Public Offer Shares” and “Structure of the Global Offering” in this prospectus.

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You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. Our Company has not authorised anyone to provide you with information that is different from what is contained in the prospectus. Any information or representation not made in the prospectus must not be relied on by you as having been authorised by our Company, the Sole Global Coordinator, the Sole Sponsor, the Joint Bookrunners, the Underwriters, any of their respective directors, or any other person involved in the Global Offering.

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SUMMARY

This summary aims to give you an overview of the information contained in this prospectus. Since this is a summary, it does not contain all the information that may be important to you. You should read the whole document before you decide to invest in the Offer Shares.

There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in the section headed “Risk Factors” in this prospectus. You should read that section carefully before you decide to invest in the Offer Shares.

OVERVIEW

We are a rapidly expanding men’s fashion casual wear apparel company in the PRC. We offer a wide range of men’s fashion casual wear products such as jackets, sweaters, shirts, T-shirts, trousers, shoes and accessories under our own brand, N&Q. We target customers who are primarily young and middle-aged men from the age of 25 to 40 in the PRC.

We are one of the earliest companies in the PRC to adopt a market-driven fast fashion business model that integrates key elements of the SPA model. We focus on the management of retail points and integration of key components of the retail and supply chain such as product planning and design, production and quality control, logistics and sales. Under our business model, we develop and promote our strong customer membership programme to collect useful consumer information from our substantial membership base across our self-operated and franchised retail points. We analyse and apply this consumer information (including spending history and preferences) in our product design and development. Through these steps, we are able to identify the latest market needs and changing consumer trends so as to quickly design, develop and bring new commercially viable and popular products to market.

Our business model allows our retail points to order products in smaller batches throughout the season according to the market demand, as opposed to placing a single large order pre-season. Under our “6-2-2” procurement model, we typically plan to procure approximately 60% of our total estimated demand ahead of the upcoming season, approximately 20% during the season itself for our more popular products and products with strong potential sales growth based on actual consumer demand, and another approximately 20% for our best-selling products and products modified from existing best-selling products with new supplementary features in order to capture strong market demand. We have effectively managed our outsourced production process and monitored customer sales at retail points under our IEAP System, while closely tracking real customer demand. Our procurement model also allows us to reduce the risk of excessive inventory.

We have developed an attractive customer membership programme which had as at 30 June 2013 approximately 1,054,000 registered members accumulated since its establishment. For the year ended 31 December 2010, 2011 and 2012 and for the six months ended 30 June 2013, we had approximately 323,000, 378,000, 483,000 and 313,000 members, respectively, who purchased at our retail points, and retail sales to these members amounted to RMB345.1 million, RMB541.0 million, RMB685.2 million and RMB349.6 million, respectively, at our self-operated and franchised retail points, which accounted for approximately 84.5%, 80.4%, 81.4% and 79.7% of our total sales generated at our self-operated and franchised retail points (based on retail prices net of discounts), for each respective period. We offer membership benefits such as product discounts, fashion advice, sales previews, personal invitations to our member-only events and miscellaneous gifts. Our large customer base provides us with a reliable source to gather useful market and customer information which we have applied in the design and development of our new products, customer services, and sales and marketing activities. We generate a significant portion of our revenue from sales to members of our customer membership programme.

Our IEAP System, an integrated management information system, improves the management of our supply chain and retail points. Our management information system provides us with immediate access to inventory, sales and other operational data at our self-operated and franchised retail points. As a result, we are able to make informed decisions on production planning, sales and marketing and

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inventory management based on this real-time data. Our management information system also allows us to monitor and coordinate the procurement and delivery of our inventory between our warehouses and retail points on a real time basis.

As at 31 October 2013, we had developed a strategic network of 438 retail points across China, comprising 225 self-operated retail points and 213 franchised retail points. These 225 self-operated retail points comprised department store concession counters, stand-alone stores and stores under cooperative arrangement. We believe that a network comprising a mix of both self-operated and franchised retail points is critical to the success of our business. Our franchisees bring local market knowledge that contributes to the success of our retail points in new markets. We have adopted a set of standard management practices for both our self-operated and franchised retail points. Our comprehensive guidelines on retail point management cover branding, visual merchandising, personnel recruiting, training and staff performance evaluation. We also have specific policies governing the use of our N&Q brand, product image and positioning, the identification and selection of store sites, decoration and renovation, and new store opening procedures.

The PRC men's fashion casual wear industry is a fast growing industry. The growth is attributable to the continuing steady growth in the PRC economy and the increase in average spending on clothing in the PRC, as well as the marketing efforts of apparel brand owners such as us. Despite the growth of China's nominal GDP decreased to 10.1% in 2012, China remains one of the fastest growing economies among the world. According to Frost & Sullivan, in 2012, the total retail sales value of the men's fashion casual wear market in the PRC reached RMB77.3 billion, growing at a CAGR of 15.6% from RMB43.3 billion in 2008 and we accounted for a market share of approximately 0.2% of the entire menswear market in the PRC in terms of retail revenue in 2012. According to Frost & Sullivan, the total retail sales value of the PRC men's fashion casual market is projected to continue to grow at a CAGR of approximately 17.6% from 2012 to 2017.

We grew rapidly during the Track Record Period. Our revenue increased from RMB322.2 million for the year ended 31 December 2010 to RMB572.1 million for the year ended 31 December 2012, representing a CAGR of 33.3%, and increased by RMB39.9 million, or 14.4%, from RMB276.2 million for the six months ended 30 June 2012 to RMB316.1 million for the six months ended 30 June 2013. Our net profit also grew significantly from RMB45.7 million for the year ended 31 December 2010 to RMB81.7 million for the year ended 31 December 2012, representing a CAGR of 33.7%. Our net profit further increased by RMB6.5 million, or 16.2%, from RMB40.2 million for the six months ended 30 June 2012 to RMB46.7 million for the six months ended 30 June 2013.

OUR COMPETITIVE STRENGTHS

We believe that the following competitive strengths are key factors for our ongoing success:

- We adopt a market-driven fast fashion business model that enables us to accurately identify the latest customer preferences and effectively plan and supply our products to meet market demands, while offering greater operational flexibility to our retail points in terms of product ordering
- We have an attractive customer membership programme with an established membership database allowing us to launch products which best meet consumer preferences and conduct targeted marketing
- We manage our self-operated and franchised retail points on an integrated and common platform to ensure consistent branding, quality control and customer service
- We are well-positioned to capitalise on the fast-growing PRC men's fashion casual wear market due to our strategic network of self-operated and franchised retail points
- We have an experienced management team with a proven track record of generating growth

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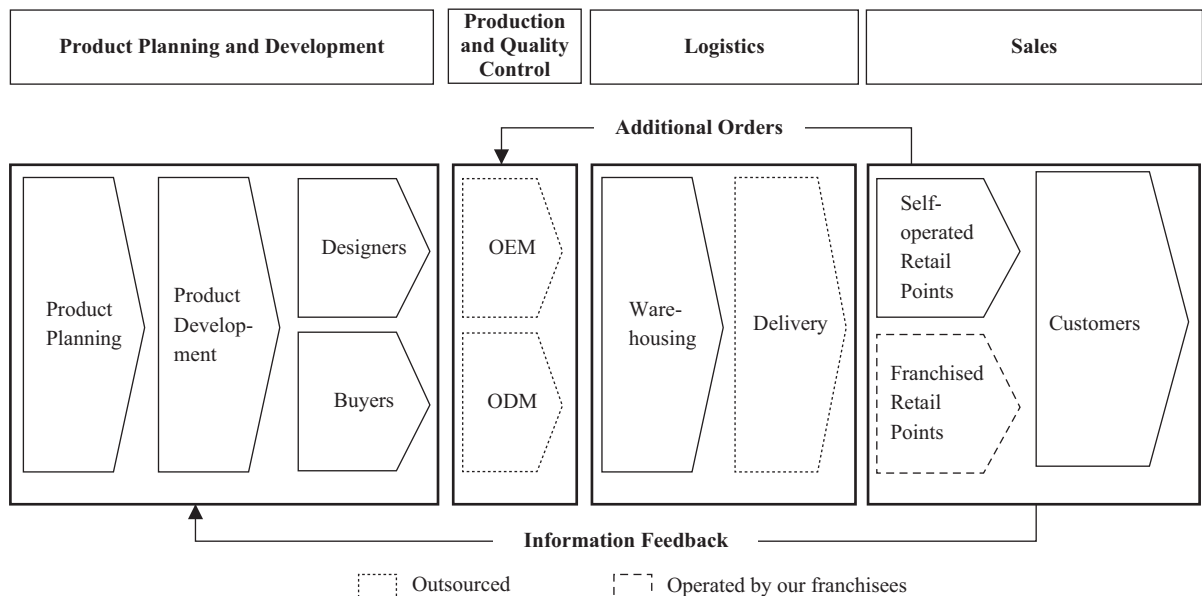
OUR STRATEGIES

We aim to maintain our growth in the PRC men's fashion casual wear market and enhance our overall competitiveness and market share. We intend to achieve our overall objectives by pursuing the following key strategic initiatives:

- Expand our strategic retail network and geographical coverage of retail points
- Expand our online sales and develop an online retail platform
- Expand and further diversify our product offerings
- Expand our membership database and enhance our ability to use the membership database

OUR BUSINESS MODEL

The following diagram illustrates our business model:



Our business model generally comprises the following steps:

- Product planning and development: we prepare product development plans based on our marketing analysis of customers' preferences and the latest fashion trends. We design and develop new product collections to be launched in the coming season and determine production plans and product prices.
- Production and quality control: we place orders to procure finished products in accordance with our production plan and procurement model and strictly control the production process to ensure product quality and on-schedule delivery.
- Logistics: quality control staff test the quality and functionality of each batch of finished products on a sampling basis according to our quality standards. The finished products that have met our quality standards are delivered to our self-operated retail points based on our sales plans and to franchised retail points based on their purchase orders.
- Sales: we place orders during the season itself for an additional approximately 20% of our total estimated demand for our more popular products and products with potential sales growth based on actual consumer demand and for an additional approximately 20% for our best-selling products and products modified from existing best-selling products with new supplementary features in order to capture strong market demand.

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PRODUCT PLANNING AND DEVELOPMENT

In addition to the latest fashion trends, current market conditions and our sales data, we also analyse feedback and information from our members in our product design process. The product design and development department of our product management centre segments the sample pool of customers and members in groups and analyses the information relating specifically to each group in order to design and develop the collections of popular and successful products to be launched for the coming season.

We design and develop our basic product models that we believe to be truly unique to our brand. Our product development committee, which is chaired by Mr. Ding Hui and comprises the senior members of our management, reviews the development plans of new product collections for a particular season approximately six months before that season starts. The product development committee evaluates and selects the final product collections and designs to be launched in the coming season, as well as determines the wholesale and retail prices, and timing of the expected launches.

We outsource the manufacture of new products to third-party OEMs and provide them with our product designs and specific instructions as to styles, apparel types, sizes, manufacture process requirements and types of materials to be used. We also collaborate with selected ODMs to jointly develop product designs that are compatible with our new product collections for the coming season. We believe this combination of self-designed OEM products and outsourced-designed ODM products enable us to control the design and development process more effectively and enhance our ability to rapidly produce a wider range of new products to meet changing consumer demands.

PROCUREMENT MANAGEMENT

In order to focus on our core strengths of product development, retail management and brand promotion, we outsource all of our production to third-party manufacturers, including OEMs and ODMs. Under our procurement model, our retail points order products in smaller batches throughout the season, as opposed to placing a single large order pre-season, in order to meet estimated customer demand. We generally enter into agreements with OEMs and ODMs and place orders for specific batches of products. Before commencing production, OEMs and ODMs are required to send us product samples for approval. We closely monitor the progress of their production and product quality during the production process and our quality control staff examine the quantity and quality of each batch of finished products when the finished products are delivered to us.

We engage OEMs and ODMs which we believe are well suited for the production of particular types of products in terms of experience, cost-efficiency and delivery time. As at 31 December 2010, 2011 and 2012 and as at 30 June 2013, we engaged 152, 153, 147 and 109 third-party manufacturers, respectively. All of these third-party manufacturers are Independent Third Parties.

SALES RETAIL NETWORK

We have developed a strategic network of retail points to capitalise on the opportunities in the fast growing PRC men's fashion casual wear market. Our self-operated retail points comprised department store concession counters, stand-alone stores and stores under cooperative arrangement. During the Track Record Period, the number of retail points in our network grew from 225 as at the end of 2010, to 366, 420 and 432 at the end of 2011 and 2012 and as at 30 June 2013, respectively.

We believe that a network comprising a mix of both self-operated and franchised retail points is critical to our success. Our franchisees bring local market knowledge that contributes to the success of our retail points in new markets. We have established and developed franchised retail points rapidly across the PRC at a lower capital expenditure, as compared to that of self-operated retail points. Our self-operated retail points serve as model stores for our franchisees in the markets we operate in and demonstrate our commitment in the new markets. Our retail network allows us to reach a wide range of

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customers and ensure an efficient and effective rollout of new products in our selected markets nationwide. The growth of our revenue and profit during the Track Record Period is consistent with the expansion and performance of our sales network.

We have established a standardised management system for our self-operated retail points and franchised retail points. The store manager is responsible for supervising each store's operation. The market monitoring department of our sales management centre is responsible for the implementation of our store inspection guidelines and for the operation monitoring of all retail points. We primarily implement the measures of store supervision, remote supervision, periodic and ad-hoc inspection, and mystery shopping to ensure that the retail points comply with our operational guidelines.

Our revenue primarily comprises revenue from retail sales to end customers in our self-operated retail points and revenue from wholesale sales to franchisees at a discount to the retail price, which in turn sell our products to end customers through their retail points.

Retail Points

The following table sets out the number of retail points opened and closed during the periods indicated:

	Year ended 31 December									Six months ended 30 June			
	2010			2011			2012			2013			
	At the beginning of the period	Opened during the period	Closed during the period	At the end of the period	Opened during the period	Closed during the period	At the end of the period	Opened during the period	Closed during the period	At the end of the period	Opened during the period	Closed during the period	At the end of the period
Self-operated retail points . . .	50	35	(1)	84	83	(12)	155	56	(13)	198	25	(13)	210
Franchised retail points	68	76	(3)	141	91	(21)	211	35	(24)	222	23	(23)	222
Total	118	111	(4)	225	174	(33)	366	91	(37)	420	48	(36)	432

Our sales network comprises a mix of both self-operated and franchised retail points. Our self-operated retail points comprise stand-alone stores, department store concession counters and stores under cooperative arrangement.

Self-operated Retail Points

As at 31 October 2013, we had 225 self-operated retail points, 163 of which were department store concession counters, 49 of which were stand-alone stores and 13 of which were stores under cooperative arrangement.

Our stand-alone stores are mainly street stores which are typically located at streets in commercial and shopping districts with high pedestrian traffic, as well as densely populated communities and business districts, while the remaining stand-alone stores are located in shopping malls. For these stand-alone stores, we typically enter into leases with the landlords, under which a fixed amount of rent is payable.

Our department store concession counters are located in major department stores in well-known premium shopping districts with well-established customer traffic in various cities in the PRC. For our department store concession counters, we enter into concession agreements with department stores and pay concession fees on a monthly basis, which are calculated as a percentage of the gross sale proceeds of the department store concession counters.

We have established stores under cooperative arrangements with third-party partners mainly in commercial and shopping districts with high customer traffic. For our stores under cooperative arrangements, we enter into cooperative agreements with third-party partners, under which we generally share with third-party partners an agreed percentage of the store revenue and they bear rental expenses and all operational expenses.

SUMMARY

Franchised Retail Points

As at 31 October 2013, we had 213 franchised retail points.

We review the application materials from potential franchisees, physically inspect and approve the store location, and generally choose franchisees that meet our requirements as to financial strength, local market knowledge and expertise, reputation, and suitable store sizes and locations.

The market development department of our sales management centre in the head office negotiates the franchise agreement with potential franchisees, and coordinates with the franchisees on the store decoration and preparation before franchised retail points are opened. It also monitors the overall contractual performance of the franchisees. We enter into franchise agreements with our franchisees. We select and appoint store managers for our franchised retail points, and we train these managers before they start working at the franchised retail points in order to ensure that they become familiar with our guidelines and policies on the daily operation of these retail points.

RISK FACTORS

There are certain risks involved in our operations. Any risk and uncertainty could have a material adverse effect on our business, financial condition and results of operations or the trading price of the H Shares, and could cause you to lose all or a portion of your investment. Below sets forth the major risk factors in relation to our operations:

- We may not be able to respond in a timely manner to rapid changes in fashion trends;
- We rely on our franchisees for the sale of a large portion of our products;
- We rely on third-party manufacturers for the production of all products and for the design of some products; and
- Most of our products are sold to members in our customer membership programme, and we may not be able to successfully retain our existing members or attract new members.

A detailed discussion of the risk factors is set forth in the section headed “Risk Factors” in this prospectus.

SUMMARY OF HISTORICAL CONSOLIDATED FINANCIAL INFORMATION

Key Income Statement Information

The following table sets forth a summary of the consolidated income statement information of our Group for the year ended 31 December 2010, 2011 and 2012 and for the six months ended 30 June 2012 and 2013:

	<u>Year ended 31 December</u>			<u>Six months ended 30 June</u>	
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2012</u>	<u>2013</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
				(unaudited)	
Revenue	322,166	467,778	572,138	276,191	316,099
<i>Self-operated retail point</i>	134,365	168,867	210,011	104,137	121,524
<i>Franchised retail point</i>	185,900	282,105	338,461	163,927	174,700
<i>Others</i>	1,901	16,806	23,666	8,127	19,875
Gross profit	127,347	204,179	258,893	123,940	146,345
<i>Self-operated retail point</i>	68,066	98,008	131,356	63,054	77,563
<i>Franchised retail point</i>	58,753	99,906	122,292	58,933	64,737
<i>Others</i>	528	6,265	5,245	1,953	4,045
Gross profit margin	39.5%	43.6%	45.3%	44.9%	46.3%
<i>Self-operated retail point</i>	50.7%	58.0%	62.5%	60.5%	63.8%
<i>Franchised retail point</i>	31.6%	35.4%	36.1%	36.0%	37.1%
<i>Others</i>	27.8%	37.3%	22.2%	24.0%	20.4%
Profit before tax	62,035	92,947	108,846	53,649	62,124
Profit for the year attributable to the owners of the Company	45,662	68,358	81,698	40,185	46,706

SUMMARY

The following table sets forth the average selling prices of our apparel products for the periods indicated:

	Year ended 31 December			Six months ended 30 June	
	2010	2011	2012	2012	2013
				(unaudited)	
Apparel					
<i>Self-operated retail point</i>					
Revenue (RMB'000)	115,885	146,116	182,768	90,414	108,682
Sales volume ('000)	763	689	784	368	382
Average retail selling price (RMB)	152	212	233	246	285
<i>Franchised retail point</i>					
Revenue (RMB'000)	157,794	242,709	290,071	140,548	152,275
Sales volume ('000)	1,478	1,804	1,932	1,011	1,044
Average wholesale selling price (RMB)	107	135	150	139	146

Our revenue is mainly from sales of our products in self-operated and franchised retail points. Our revenue increased from RMB322.2 million for the year ended 31 December 2010 to RMB572.1 million for the year ended 31 December 2012, representing a CAGR of 33.3%, and from RMB276.2 million for the six months ended 30 June 2012 to RMB316.1 million for the six months ended 30 June 2013, as a result of the continuing expansion of our retail sales network and the increase in the average selling prices of our products as we further enhanced our brand recognition and our product offering became more mature.

Others mainly consist of our sales of products directly through online retail websites before January 2012 and through a third-party e-commerce distributor after January 2012. The revenue from others increased from RMB1.9 million for the year ended 31 December 2010 to RMB23.7 million for the year ended 31 December 2012, representing a CAGR of 252.8%. The revenue from others further increased by RMB11.7 million or 144.6% from RMB8.1 million for the six months ended 30 June 2012 to RMB19.9 million for the six months ended 30 June 2013.

We incurred approximately RMB6.6 million of listing expenses during the Track Record Period, among which RMB2.5 million was recorded as prepayments as at 30 June 2013 and RMB4.1 million was recognized to the statement of comprehensive income for the six months ended 30 June 2013. We expect to incur approximately RMB31.0 million after the Track Record Period, of which approximately RMB15.4 million will be recognized as expense in the consolidated statements of comprehensive income for the year ending 31 December 2013 and the remainder will be capitalised upon Listing.

Key Balance Sheet Information

The following table sets forth a summary of the consolidated key balance sheet information of our Group as at 31 December 2010, 2011 and 2012 and as at 30 June 2013:

	As at 31 December			As at
	2010	2011	2012	30 June
	RMB'000	RMB'000	RMB'000	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets	48,945	76,337	147,348	167,249
Current assets	230,423	393,838	471,744	528,363
Current liabilities	(87,035)	(128,484)	(218,203)	(248,017)
Net current assets	143,388	265,354	253,541	280,346
Total assets less current liabilities	192,333	341,691	400,889	447,595
Total equity	165,333	329,691	400,889	447,595
Non-current liabilities	27,000	12,000	—	—
Total equity and non-current liabilities	192,333	341,691	400,889	447,595

SUMMARY

Key Cash Flows Statement Information

The following table sets forth a summary of the consolidated key cash flows statement information of our Group for the year ended 31 December 2010, 2011 and 2012 and for the six months ended 30 June 2012 and 2013:

	Year ended 31 December			Six months ended 30 June	
	2010	2011	2012	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Net cash generated from operating activities	29,462	30,454	35,825	40,624	55,768
Net cash used in investing activities	(23,929)	(30,007)	(78,875)	(59,646)	(1,871)
Net cash generated from financing activities	3,724	101,267	59,568	11,918	18,393
Net increase/(decrease) in cash and cash equivalents. . .	9,257	101,714	16,518	(7,104)	72,290
Cash and cash equivalents at beginning of year/period .	70,647	79,904	181,618	181,618	198,136
Cash and cash equivalents at end of year/period	<u>79,904</u>	<u>181,618</u>	<u>198,136</u>	<u>174,514</u>	<u>270,426</u>

Financial Ratios

The table below sets forth a summary of our key financial ratios during the Track Record Period:

Financial Ratios	As at/ year ended 31 December			As at/ six months ended 30 June
	2010	2011	2012	2013
Profitability ratios:				
Gross margin	39.5%	43.6%	45.3%	46.3%
Net profit margin.	14.2%	14.6%	14.3%	14.8%
Return on equity	32.0%	27.6%	22.4%	22.0%
Return on total assets.	16.3%	14.5%	13.2%	13.4%
Liquidity ratios:				
Current ratio.	2.6	3.1	2.2	2.1
Quick ratio.	1.9	2.4	1.7	1.7
Turnover ratios:				
Inventories turnover days	95.3	97.9	111.6	114.3
Receivables turnover days.	34.6	35.5	40.4	42.9
Payables turnover days.	53.3	31.5	20.9	12.3
Capital adequacy ratio:				
Gearing ratio	34.6%	22.0%	38.6%	40.5%

Our average inventory turnover days increased during the Track Record Period, primarily because we increased the number of our self-operated retail points from 84 as at 31 December 2010 to 210 as at 30 June 2013, and these retail points required us to maintain certain levels of inventory to meet customers' demand. In particular, we opened more department store concession counters which generally took some time for consumers in the new markets to recognise our product brand and that some department stores required us to maintain certain minimum levels of inventory.

Our average trade receivable turnover days increased during the Track Record Period, primarily due to the increase in trade receivable turnover days for our franchised retail points. Our trade receivable turnover days for our franchised retail points increased during the Track Record Period primarily due to a longer settlement period from our franchisees to support their operations and expansion. The trade receivable turnover days were within our credit period granted to the franchisees.

RECENT DEVELOPMENTS

Based on our unaudited management accounts, our revenue was approximately RMB197.1 million for the four months ended 31 October 2013. Our overall gross profit margin and the gross profit margin of the self-operated retail points, franchised retail points and other sales remained relatively stable for the same period, respectively, as compared to those for the six months ended 30 June 2013 and the year ended 31 December 2012.

SUMMARY

Subsequent to the Track Record Period, we have continued to monitor our development and expand our sales network. For the ten months ended 31 October 2013, we established 53 new self-operated retail points and 34 new franchised retail points. We closed 26 self-operated retail points and 43 franchised retail points during the same period. As at 31 October 2013, our sales network of retail points comprised a total of 225 self-operated retail points and 213 franchised retail points. We are in the process of establishing 58 retail points which are expected to commence operation before the end of 2013.

Our Directors confirm that there have not been any material adverse changes in our financial or trading position or prospects subsequent to the Track Record Period and up to the date of this prospectus. As far as we are aware, there was no material change in the general market conditions in the PRC men's fashion casual wear industry that had affected or would affect our business operations or financial conditions materially and adversely.

RETAIL NETWORK EXPANSION PLAN

We intend to strengthen our presence in Eastern China and continue to establish more retail points in third- and fourth-tier cities in the PRC. We also intend to further expand our sales network in cities where we currently have no or limited presence but where we anticipate will have significant growth potential. Depending on the market conditions and customers' demand, we intend to establish approximately 50% of the new retail points as franchised retail points and approximately 50% of them as self-operated retail points comprising approximately 35% as department store concession counters, approximately 5% as stand-alone stores and not more than 10% as stores under cooperative arrangement. See the subsection headed "Business — Sales — Retail Network Expansion Plan" in this prospectus for further discussion. The implementation of our expansion plan is subject to certain market conditions and other factors. See the subsection headed "Risk Factors — Risks Relating to our Business — If we fail to manage the rapid growth of our sales network effectively, our business, financial condition, results of operations and prospects could be adversely affected" in this prospectus for the discussion of potential risks relating to our expansion.

OFFER STATISTICS

Market capitalisation at Listing:	HK\$1,218 million to HK\$1,728 million
Offer size:	Initially 25% (excluding H Shares to be offered pursuant to the exercise of the Over-allotment Option) of the enlarged issued capital of our Company
Over-allotment Option:	Up to 15% of the H Shares initially being offered under the Global Offering
Offer Price per H Share:	HK\$2.03 to HK\$2.88 per H Share
Board lot:	1,000 H Shares
Offering structure:	10% Hong Kong Public Offering and 90% International Offering (subject to adjustment and the Over-allotment Option)
Use of proceeds (assuming the Over-allotment Option is not exercised and assuming an Offer Price of HK\$2.46 per H Share (being the mid-point of the indicative price range of the Offer Price):	We expect to receive the net proceeds of approximately HK\$321.4 million (equivalent to approximately RMB253.7 million) from the Global Offering, approximately (i) HK\$225.9 million (equivalent to approximately RMB178.3 million) to expand our sales network (of which HK\$80.5 million to HK\$93.1 million (equivalent to approximately RMB63.5 million to RMB73.5 million) for establishing 200 new retail points in 2014); (ii) HK\$63.4 million (equivalent to approximately RMB50.0 million) for construction of the research and development part of our product centre in Shanghai; and (iii) HK\$32.1 million (equivalent to approximately RMB25.9 million) for general working capital of our Group

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

	Audited	Estimated net	Unaudited	Unaudited pro forma	
	consolidated net		proceeds from		
	tangible assets	the Global	adjusted net	adjusted net tangible	
	of our Group as	Offering	tangible assets	assets per Share	
	at 30 June 2013	RMB'000	of our Group	RMB	HK\$
	RMB'000	RMB'000	RMB'000	RMB	HK\$
Based on an Offer Price of HK\$2.03 per H Share .	447,595	204,600	652,195	1.09	1.38
Based on an Offer Price of HK\$2.88 per H Share .	447,595	301,503	749,098	1.25	1.58

SUMMARY

Note: Please see the section headed “Unaudited Pro Forma Financial Information” in Appendix II to this prospectus for further details regarding the assumptions used and the calculation method.

PROFIT FORECAST FOR THE YEAR ENDING 31 DECEMBER 2013

Forecast consolidated profit ⁽¹⁾⁽²⁾	Not less than RMB80.2 million (approximately HK\$101.6 million)
Unaudited pro forma forecast earnings per Share ⁽²⁾	RMB0.13 (approximately HK\$0.17)

Notes:

- (1) The bases and assumptions on which the above profit forecast has been prepared are summarised in Appendix III to this prospectus. Our Directors have prepared the forecast consolidated profit attributable to the owners of the Company for the year ending 31 December 2013 based on our audited consolidated results for the six months ended 30 June 2013, our unaudited management accounts of the four months ended 31 October 2013 and the forecast consolidated results for the remaining two 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 owners of the Company, assuming that a total of 600,000,000 Shares had been in issue 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.

Average Selling Price Sensitivity Analysis

The sensitivity analysis below shows the impact of variations of 1.0%, 5.0% and 10.0% in the average selling prices of our products, which in turn affect our projected revenue and net profit for the year ending 31 December 2013:

Variations of Projected Average Selling Prices	Increase/(decrease) in	
	Revenue	Net profit
	RMB'000	RMB'000
1.0% increase	6,765	1,333
5.0% increase	33,822	6,663
10.0% increase	67,645	13,326
1.0% decrease	(6,765)	(1,333)
5.0% decrease	(33,822)	(6,663)
10.0% decrease	(67,645)	(13,326)

DIVIDEND POLICY

Our Board of Directors is responsible for submitting proposals in respect of dividend payments, if any, to the Shareholders' general meeting for approval. Our dividend distribution was based on our profit available for appropriation. Under the PRC Company Law and our Articles of Association, all of our Shareholders holding the same class of shares have equal rights to dividends and other distributions appropriations to their shareholdings. We declared dividends in the amount of nil, nil and RMB10.5 million for the year ended 31 December 2010, 2011 and 2012, respectively. Subject to the policies discussed in the section headed “Financial Information — Dividend Policy”, we intend to recommend annually in subsequent years for the foreseeable future a dividend distribution of not less than 20% of our distributable profit for the year. Such intention does not amount to any guarantee or representation or indication that we must or will declare and pay dividends in such manner or declare and pay any dividends at all.

DEFINITIONS

In this prospectus, unless the context otherwise requires, the following expressions shall have the following meanings.

“Application Forms(s)”	WHITE application form(s) and YELLOW application form(s) and GREEN application form(s), or where the context so requires, any of them, relating to the Hong Kong Public Offering
“Articles of Association” or “Articles”	the articles of association of our Company, conditionally adopted on 24 June 2013, to become effective on the Listing Date, and as amended from time to time, a summary of which is set out in Appendix VI to this prospectus
“associate(s)”	has the meaning ascribed to it under the Hong Kong Listing Rules
“Board” or “Board of Directors”	the board of Directors of our Company
“BOCI”	BOCI Asia Limited
“Business Day”	any day (excluding a Saturday, a Sunday or public holiday in Hong Kong) on which banks in Hong Kong are generally open for normal banking business
“CAGR”	compound annual growth rate, a measurement to assess the growth rate of value over time
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS at a direct clearing participant or a general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant, who may be an individual or joint individuals or a corporation
“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“CCBI”	CCB International Capital Limited, a licenced corporation under the SFO to conduct type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities

DEFINITIONS

“China” or the “PRC”	the People’s Republic of China excluding, for the purpose of this prospectus, Hong Kong, the Macau Special Administrative Region of China and Taiwan
“Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
“Company”, “our Company”, “we” or “us”	Fujian Nuoqi Co., Ltd. (福建諾奇股份有限公司), a joint stock limited liability company incorporated under the laws of the PRC on 22 January 2008, and except where the context indicates otherwise, includes our predecessor
“connected persons”	has the meaning ascribed to it under the Hong Kong Listing Rules
“Controlling Shareholder(s)”	has the meaning ascribed thereto under the Hong Kong Listing Rules, and in the context of this prospectus, refers to Mr. Ding Hui and Mr. Ding Canyang
“CSRC”	China Securities Regulatory Commission (中國證券監督管理委員會), a regulatory body responsible for the supervision and regulation of the PRC national securities markets
“Director(s)”	the director(s) of our Company, including all executive, non-executive and independent non-executive directors
“Domestic Shares”	ordinary shares in the registered capital of our Company with a nominal value of RMB0.20 each, which are subscribed for and paid up in RMB by domestic investors in the PRC and which are not yet approved for overseas listing
“first- and second-tier cities”	municipalities, the capitals of provinces, and the capitals of the autonomous regions in the PRC
“Frost & Sullivan”	Frost & Sullivan (Beijing) Inc., Shanghai Branch Co.
“GDP”	gross domestic product
“Global Offering”	the Hong Kong Public Offering and the International Offering
“GREEN application form(s)”	the application form(s) to be completed by the White Form eIPO Service Provider, Computershare Hong Kong Investor Services Limited
“Group”, “we” or “us”	our Company and its Subsidiaries (or our Company and any one or more of its Subsidiaries, as the context may require)
“H Share Registrar”	Computershare Hong Kong Investor Services Limited

DEFINITIONS

“H Shares”	ordinary shares in the registered capital of our Company with a nominal value of RMB0.20 each, which are to be approved for listing and trading on the Hong Kong Stock Exchange
“He Zhong Investment”	Quanzhou City He Zhong Investment and Development Co., Ltd.* (泉州市合眾投資發展有限公司), a company established in the PRC on 22 November 2007 and one of our Shareholders
“HK\$” or “HK dollars”	Hong Kong dollars, the lawful currency of Hong Kong
“HKSCC”	Hong Kong Securities Clearing Company Limited, a wholly owned subsidiary of Hong Kong Exchanges and Clearing Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly owned subsidiary of HKSCC
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (as amended from time to time)
“Hong Kong Public Offer Shares”	the 15,000,000 H Shares being initially offered by our Company for subscription at the Offer Price pursuant to the Hong Kong Public Offering (subject to reallocation as described in the section headed “Structure of the Global Offering” in this prospectus)
“Hong Kong Public Offering”	the issue and offer for subscription of the Hong Kong Public Offer Shares to the public in Hong Kong for cash (subject to adjustment as described in the section headed “Structure of the Global Offering” in this prospectus) at the Offer Price (plus brokerage, SFC transaction levies, and Hong Kong Stock Exchange trading fees), subject to and in accordance with the terms and conditions described in this prospectus and the Application Forms as further described in the section headed “Structure of the Global Offering — Hong Kong Public Offering” in this prospectus
“Hong Kong Stock Exchange”	the Stock Exchange of Hong Kong Limited
“Hong Kong Underwriters”	the underwriters of the Hong Kong Public Offering listed in the subsection headed “Underwriting — Hong Kong Underwriters” in this prospectus
“Hong Kong Underwriting Agreement”	the underwriting agreement dated 27 December 2013 relating to the Hong Kong Public Offering entered into by, among others, our Company and the Hong Kong Underwriters, as further described in the section headed “Underwriting” in this prospectus

DEFINITIONS

“IEAP System”	the Information Enterprise Application Platform System, a management information system developed by us
“IFRS”	International Financial Reporting Standards promulgated by the International Accounting Standards Board (“IASB”); IFRS include the International Accounting Standards (“IAS”) and their interpretations
“Independent Third Party(ies)”	person(s) or company(ies) which is(are) not a connected person(s) (as defined in the Hong Kong Listing Rules) of our Company
“International Offer Shares”	the 135,000,000 H Shares initially being offered by us for subscription under the International Offering together, where relevant, with any additional H Shares that may be issued by us pursuant to any exercise of the Over-allotment Option, subject to reallocation as described in “Structure of the Global Offering” in this prospectus
“International Offering”	the conditional placing of the International Offer Shares by the International Underwriters with professional, institutional, corporate and/or other investors at the Offer Price, as further described in the section headed “Structure of the Global Offering” in this prospectus
“International Underwriters”	the group of underwriters that is expected to enter into the International Underwriting Agreement to underwrite the International Offering
“International Underwriting Agreement”	the underwriting agreement dated 3 January 2014 relating to the International Offering, which is expected to be entered into by, among others, our Company and the International Underwriters
“Jia Xing Venture Enterprise”	Jia Xing Shi Dai Jing Xuan Venture Enterprise Limited Partnership* (嘉興時代精選創業投資合夥企業 (有限合夥)), a partnership established in the PRC on 6 July 2011 and one of our Shareholders
“Joint Bookrunners” or “Joint Lead Managers”	CCBI, BOCI and RHB OSK
“Ju Teng Investment”	Xinjiang Sheng Shi Ju Teng Equity Investment Enterprise Limited Partnership* (新疆盛世聚騰股權投資合夥企業 (有限合夥)), a partnership established in the PRC on 4 March 2013 and one of our Shareholders
“Latest Practicable Date”	20 December 2013, being the latest practicable date for the purposes of ascertaining certain information contained in this prospectus

DEFINITIONS

“Listing”	listing of the H Shares on the Main Board
“Listing Committee”	the listing sub-committee of the board of directors of the Hong Kong Stock Exchange
“Listing Date”	the date on which dealings in the H Shares first commence on the Hong Kong Stock Exchange
“Main Board”	the stock exchange operated by the Hong Kong Stock Exchange which is independent from and operated in parallel to the Growth Enterprise Market of the Hong Kong Stock Exchange
“MOF”	Ministry of Finance of the PRC (中華人民共和國財政部)
“MOFCOM”	Ministry of Commerce of the PRC (中華人民共和國商務部)
“Mr. Ding Canyang”	Mr. Ding Canyang (丁燦陽), an executive Director and a Controlling Shareholder of our Company
“Mr. Ding Hui”	Mr. Ding Hui (丁輝), an executive Director and a Controlling Shareholder of our Company
“NDRC”	National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)
“Nuoqi Investment”	Quanzhou City Nuoqi Investment and Development Co., Ltd.* (泉州市諾奇投資發展有限公司), a company established in the PRC on 22 November 2007 and one of our Shareholders
“ODM”	an acronym for original design and manufacturer, a business that designs and manufactures products for branding and resale by the customer
“OEM”	an acronym for original equipment manufacturer, a business that manufactures products in accordance with the customer’s design and specification for branding and resale by the customer
“Offer Price”	the final Hong Kong dollar price per H Share (exclusive of brokerage, SFC transaction levies, and Hong Kong Stock Exchange trading fees) of not more than HK\$2.88 and expected to be not less than HK\$2.03, such price to be agreed upon by our Company and the Joint Bookrunners (on behalf of the Underwriters) on or before the Price Determination Date
“Offer Shares”	the Hong Kong Public Offer Shares and the International Offer Shares together, where relevant, with additional H Shares issued under the exercise of the Over-allotment Option

DEFINITIONS

“Over-allotment Option”	the option granted by us to the International Underwriters, pursuant to which we may be required to allot and issue up to 22,500,000 additional H Shares (representing up to 15% of the H Shares initially being offered under the Global Offering) at the Offer Price to, among other things, cover over-allocations in the International Offering, details of which are described in the section headed “Structure of the Global Offering” in this prospectus
“PBOC”	the People’s Bank of China (中國人民銀行), the central bank of the PRC
“PRC Company Law”	the Company Law of the PRC (《中國人民共和國公司法》), as enacted by the Standing Committee of the Eighth National People’s Congress on 29 December 1993 and effective on 1 July 1994, as amended, supplemented or otherwise modified from time to time
“PRC GAAP”	the PRC Accounting Standards for Business Enterprises, and the Application Guidance for Accounting Standard for Business Enterprise and interpretation of Accounting Standards for Business Enterprise and other relevant regulations
“PRC government” or “state”	the government of the PRC including all political subdivisions (including provincial, municipal and other regional or local government entities) and their instrumentalities thereof or, where the context requires, any of them
“Price Determination Date”	the date, expected to be on or around 3 January 2014 but no later than 6 January 2014, on which the Offer Price is fixed for the purposes of the Global Offering
“province”	each being a province or, where the context requires, a provincial level autonomous region or municipality under the direct supervision of the central government of the PRC
“Quanzhou City Nuoqi”	Quanzhou City Nuoqi Fashion Chain Sales Co., Ltd.* (泉州市諾奇時裝連鎖銷售有限公司), a limited liability company established in the PRC on 14 October 2004 and the predecessor of our Company
“Quanzhou Nuoqi”	Quanzhou Nuoqi Apparel Co., Ltd* (泉州諾奇服飾有限公司), a limited liability company established in the PRC on 15 January 2013 and wholly-owned by our Company
“Regulation S”	Regulation S under the Securities Act
“RHB OSK”	RHB OSK Securities Hong Kong Limited

DEFINITIONS

“RMB” or “Renminbi”	Renminbi Yuan, the lawful currency of the PRC
“SAFE”	State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
“Securities Act”	the U.S. Securities Act of 1933, as amended, supplemented or otherwise modified from time to time
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO” or “Securities and Futures Ordinance”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Shanghai Nuoqi”	Shanghai Nuoqi Apparel Co., Ltd* (上海諾奇服飾有限公司), a limited liability company established in the PRC on 19 April 2011 and wholly-owned by our Company
“Shareholders”	holder(s) of the Share(s)
“Shares”	ordinary shares in the registered capital of our Company with a nominal value of RMB0.20 each, comprising Domestic Shares and H Shares
“Silicon Shenzhen”	Shenzhen Silicon Valley Solar Venture Capital Co., Ltd.* (深圳硅谷天堂陽光創業投資有限公司), a company established in the PRC on 2 June 2009 and one of our Shareholders
“Sole Sponsor” or “Sole Global Coordinator”	CCBI
“SPA model”	the Specialty Store Retailer of Private Label Apparel model, a fast fashion business model adopted by various international branded apparel retailers, with the three key characteristics consisting of integration of all stages of the value chain (from design and production to sale to end-customers), accurate identification of and rapid response to customers’ evolving preferences and demands, and strong control over retail points
“Stabilising Manager”	CCBI
“State Administration of Taxation” or “SAT”	State Administration of Taxation of China (中華人民共和國國家稅務總局)
“Subsidiary(ies)”	has the meaning ascribed to it under the Hong Kong Listing Rules, unless the context otherwise requires
“Supervisors”	the members of the supervisory committee of our Company

DEFINITIONS

“third- and fourth-tier cities”	the prefecture-level cities in the PRC, excluding the first- and second-tier cities, and country-level and other townships-level cities in the PRC
“Tian Run Venture Enterprise”	Fuzhou City Jinan Tian Run Venture Enterprise Centre Limited Partnership* (福州市晉安區天潤創業投資中心 (有限合夥)), a partnership established in the PRC on 25 January 2011 and one of our Shareholders
“Track Record Period”	the three years ended 31 December 2012, and six months ended 30 June 2013
“Underwriters”	the Hong Kong Underwriters and the International Underwriters
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
“United States” or “U.S.”	the United States of America
“White Form eIPO”	the application for Hong Kong Public Offer Shares to be issued in the applicant’s own name by submitting applications online through the designated website for the White Form eIPO Service Provider, www.eipo.com.hk
“White Form eIPO Service Provider”	Computershare Hong Kong Investor Services Limited

In this prospectus, the terms “associate”, “connected person”, “connected transaction”, “controlling shareholder”, “subsidiary” and “substantial shareholder” shall have the meanings given to such terms in the Hong Kong Listing Rules, unless the context otherwise requires.

In this prospectus, unless otherwise stated, certain amounts denominated in Renminbi have been translated into Hong Kong dollars at an exchange rate of RMB0.7892 = HK\$1.00 as of the Latest Practicable Date, respectively, for illustration purpose only. Such conversions shall not be construed as representations that amounts in Renminbi were or could have been or could be converted into Hong Kong dollars at such rates or any other exchange rates on such date or any other date.

Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

In this prospectus, if there is any inconsistency between the Chinese names of the entities or enterprises established in the PRC and their English translations, the Chinese names shall prevail. English translation of company names in Chinese or another language which are marked with “” are for identification purpose only.*

FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties. These forward-looking statements include, without limitation, statements relating to:

- our business and operating strategies and plans for the development of existing and new businesses, our ability to implement such strategies and plans, and the expected timetable of such implementation;
- our financial condition;
- our dividend distribution plans;
- the prospects of our business and operations, including development plans for our existing and new businesses;
- the regulatory environment, as well as the general industry outlook, for the men's fashion casual wear industry in the PRC;
- further developments in, and competitive environment for, the men's fashion casual wear industry in the PRC; and
- the general economic trend of the PRC.

The words “aim”, “anticipate”, “believe”, “contemplate”, “continue”, “could”, “expect”, “going forward”, “intend”, “may”, “ought to”, “plan”, “potential”, “predict”, “project”, “schedule”, “seek”, “should”, “target”, “will”, “would” the negatives forms of these terms, as well as similar expressions, as they relate to us, are intended to identify a number of these forward-looking statements. These statements reflect the current views of our management with respect to future events and are subject to certain risks, uncertainties and assumptions, including the risk factors described in this prospectus. Subject to the requirements of applicable laws, rules and regulations, we do not have any obligation to update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise. Hence, should one or more of these risks or uncertainties materialise, or should underlying assumptions prove to be incorrect, our financial condition may be adversely affected and may vary materially from those described herein as anticipated, believed, estimated or expected. Accordingly, such statements are not a guarantee of future performance and you should not place undue reliance on such forward-looking information. We undertake no obligation to publicly update or revise any forward-looking statements contained in this prospectus, whether as a result of new information, future events or otherwise, except as required by applicable laws, rules and regulations. All forward-looking statements contained in this prospectus are qualified by reference to the cautionary statements set out in this section.

In this prospectus, statements of or references to the intentions of our Company or those of any of our Directors are made as at the date of this prospectus. Any such intentions may change in light of future developments.

RISK FACTORS

You should carefully consider all of the information in this prospectus, including the risks and uncertainties described below before making an investment in the Offer Shares. You should pay particular attention to the fact that a substantial part of our business is located in the PRC, and we are governed by a legal and regulatory environment which may differ from that which prevails in other countries. Our business, financial condition and results of operations could be materially and adversely affected by any of these risks. The trading price of our H Shares could decline due to any of these risks, and you may lose all or part of your investment.

RISKS RELATING TO OUR BUSINESS

We may not be able to respond in a timely manner to rapid changes in fashion trends

We adopt a market-driven fast fashion business model. As a result, we are highly susceptible to changes in fashion trends and fluctuations in consumer tastes and preferences. In order to achieve continued and sustained success in our business, we must be able to identify and respond promptly to such changes. We cannot assure you that we will always be successful in capturing the current fashion trends and consumer preference in a timely manner. If we fail to quickly and accurately respond to such changes in the market, we may suffer lower sales volumes, lower selling prices of our products and lower profit margins, as well as slower inventory turnover. In addition, if we fail to develop new products to meet such changes in a timely manner, we may suffer inventory shortages and loss of sales opportunities, which may materially and adversely affect our image. As a result, our business, financial condition and results of operations could be materially and adversely affected.

We rely on our franchisees for the sale of a large portion of our products

A significant portion of our revenue is derived from sales to our franchisees, all of which are Independent Third Parties. For the year ended 31 December 2010, 2011 and 2012 and for the six months ended 30 June 2013, revenue from sales to our franchisees was RMB185.9 million, RMB282.1 million, RMB338.5 million and RMB174.7 million, accounting for 57.7%, 60.3%, 59.2% and 55.3% of our total revenue, respectively. Our reliance on the franchisees means that the sales performance of our franchisees and their ability to expand their businesses and sales networks are crucial to the future growth of our business. Since we generally enter into short-term, usually three years, franchise agreements with our franchisees, there can be no assurance that such agreements will be renewed on such terms that are acceptable to us or at all. Any of the foregoing may materially and adversely affect our business, financial condition and results of operations.

Our business may be negatively affected if the franchisees fail to comply with our retail policies or fail to follow our strategies

We rely on the contractual terms as set forth in our franchise agreements to impose our policies on the retail points operated by our franchisees. If our franchisees are unable to meet our standardised requirements or fulfil the obligations as set out in the franchise agreements, we may not be able to effectively manage our sales network or maintain a uniform brand image, which may result in erosion of our goodwill and an unfavourable public perception of our brand. Additionally, we may be unable to identify replacements for the franchisees who fail to comply with our retail policies in a timely manner. As a result, our business and results of operations may be materially and adversely affected.

RISK FACTORS

We rely on third-party manufacturers for the production of all products and for the design of some products

We rely on third-party manufacturers, OEMs and ODMs, for the production of all of our products. We also outsource the design of certain products to ODMs. A number of factors could cause prolonged interruptions in the operations of these manufacturers, including but not limited to equipment failures or property damages experienced by these manufacturers, changes in laws and regulations that affect their manufacturing processes, or financial difficulties and labour disputes faced by these manufacturers. We may experience material disruptions in the supply of finished goods due to any of the above factors in the future.

We cannot assure you that our existing third-party manufacturers will continue to accept our future purchase orders on the same or similar terms (including prices and quantities) or at all in the future, nor can we assure you that our third-party manufacturers' resources will not be used for their other customers, some of which may be our competitors, or that they will continuously have sufficient resources to meet our demand. For the products we have outsourced design, we cannot assure you that the designs provided by these third-party manufacturers will be satisfactory to us and our customers. In the event that the third-party manufacturers fail to provide designs that meet our standards and the expectations from our customers, the market demand for our products may be adversely affected. If these manufacturers cannot fulfil their obligations to supply sufficient finished goods or provide satisfactory designs to us, respectively, or in the event that we have disputes with or lose the services from any of our existing manufacturers, we may not be able to find suitable replacements on a timely basis to supply the same or similar types and quantities of products, which could adversely affect our business, financial condition and results of operations.

In addition, as we only exercise limited control over the operations of our third-party manufacturers, we are not able to ensure their compliance with applicable laws and regulations. The failure on the part of our third-party manufacturers to comply with certain laws, such as labour and environmental laws, may result in delay or interruption in their operations or even negative publicity, which could affect our sales or damage our brand and reputation. Furthermore, since our control over the operations of third-party manufacturers is limited, we need to maintain stringent quality inspection procedures to ensure that the quality of finished goods is up to our standards. If we fail to maintain such procedures and relevant standards, or if our procedures are proven to be insufficient to ensure the quality of our products, our business, financial condition and results of operations may be materially and adversely affected.

Most of our products are sold to members in our customer membership programme, and we may not be able to successfully retain our existing members or attract new members

We have established a customer membership programme through which we gather information to develop our products, conduct targeted marketing and enhance customer loyalty. We rely on the information provided by our members as well as each member's past spending history in our self-operated and franchised retail points, such as the amount spent, the types of apparel products bought and the frequency of shopping to prepare our business plans, analyse consumers' preferences, design and develop products that appeal to our customers, and conduct customised marketing that targets specific customer groups.

RISK FACTORS

Maintaining existing members, enrolling new members and expanding our membership base in our customer membership programme are critical to our success. For the year ended 31 December 2010, 2011 and 2012 and for the six months ended 30 June 2013, we had approximately 323,000, 378,000, 483,000 and 313,000 members, respectively, who visited and purchased in our self-operated and franchised retail points, and each member has shopped with us on average for 2.45, 2.37, 2.55 and 1.63 times per year and on average spent RMB436, RMB606, RMB556 and RMB686, respectively per purchase. For the year ended 31 December 2010, 2011 and 2012 and for the six months ended 30 June 2013, the retail sales to these members amounted to RMB345.1 million, RMB541.0 million, RMB685.2 million and RMB349.6 million, respectively, in our self-operated and franchised retail points, which accounted for over 80% of our total revenue from our self-operated and franchised retail points (based on retail prices net of discounts), for each respective period. If we fail to retain our existing members, attract new members and/or expand our existing membership base, our business, financial condition, results of operations and growth prospects may be materially and adversely impacted.

We heavily rely on our IEAP System, and any malfunction in the system over an extended period could adversely affect our business

We manage our self-operated retail points and the retail points operated by our franchisees through our management information system. We use our management information system to coordinate inventory movements, monitor real-time operational data, manage membership information, and conduct targeted marketing. For details, please refer to the subsection headed “Business — Management Information System” in this prospectus. We cannot assure you that our management information system is always up-to-date or will always be operated without any interruption. Nor can we ensure that the level of security we maintain on our management information system is proper and adequate or that our management information system can withstand intrusions from or prevent improper usage by any third party or unauthorised person. Any failure by us to maintain the proper operation of the management information system due to any reason may adversely affect our business, financial condition and results of operations.

Our business is susceptible to seasonal fluctuations and unexpected and abnormal changes in climate

Our business is affected by seasonal fluctuations, with relatively higher levels of sales for our winter-and-fall product collections and lower levels of sales for our spring-and-summer product collections because the unit selling price for our winter and fall apparel products is generally higher than that for spring and summer apparel products. We also record higher sales typically around holiday seasons such as the Chinese New Year and the Chinese National Day. As a result, comparisons of sales and operating results between different periods within a single financial year, or between different periods in different financial years, are not necessarily meaningful and cannot be relied on as indicators of our performance. In addition, since we operate largely on a seasonal cycle, if our third-party manufacturers fail to deliver on a timely basis as a result of extreme and unseasonable weather conditions, our sales in any season and our results of operations could be materially and adversely affected. Furthermore, our business is also susceptible to unexpected and abnormal changes in climate. For example, a warm winter may affect the sales of our winter products, while a cool summer may affect the sales of our summer products. These unexpected and abnormal changes in climate may affect the sales of our products that are scheduled for release for a particular season.

RISK FACTORS

Current retail point locations may become unattractive, and we and our franchisees may not be able to identify and obtain new attractive locations at reasonable terms, if at all

The success of any retail point depends largely on its location. There can be no assurance that our current retail point locations, including those of our franchisees, will continue to be attractive. The economic conditions or demographic patterns of the areas where our retail points are located could decline in the future, thus resulting in reduced sales in these locations. Any change in the tenant mix or a change in the anchor tenant of a department store or shopping mall in which our self-operated and franchised retail points are located may result in fewer customers visiting the shop and consequently lower the customer traffic flow to these retail points. Additionally, poor maintenance of the complex may also attract less patronage and may adversely affect our business. In addition, the competition to procure locations with large amounts of pedestrian traffic is intense. If these current retail point locations become unattractive and we and our franchisees cannot obtain desirable locations at reasonable terms, our ability to implement our growth strategy may be adversely affected.

Our rights to use our leased premises for certain of our retail points could be challenged and we may be subject to fines as a result of unregistered leases

Under PRC laws, all lease agreements are required to be registered with local land bureaus. However, as at 31 October 2013, we leased 58 premises for our retail points and warehouses, among which the lessors of 27 leased properties are not able to provide valid property ownership certificates and other relevant documents. According to the local general practice, the relevant PRC authorities accepted the registration of 15 of these 27 lease properties whereas the remaining 12 of these leased properties have not been registered. As a result, as advised by our PRC legal adviser, Fujian Junli Law Firm, the relevant leasing agreements of these leased properties may be invalid and we may be forced to vacate the properties in the event any party who has a proper ownership certificate claims its right in any of these leased properties. In addition, the lessors of another 17 leased properties provided valid property ownership certificates but these leased properties were not registered with the relevant PRC authorities. As advised by our PRC legal adviser, Fujian Junli Law Firm, as the lessor and we may be subject to fines ranging from RMB1,000 to RMB10,000 for each non-registered lease, the maximum penalty for our failure to register the total of 29 leased properties with the relevant PRC authorities (including 12 leased properties with the lessors not being able to provide us valid property ownership certificates and 17 leased properties of which the lessors provided valid property ownership certificates but were not registered) would be approximately RMB290,000.

We sell most of our products in Eastern China, and our expansion outside of Eastern China may not be successful

Most of our retail points are located in Eastern China, specifically in Fujian, Jiangsu, Anhui, Jiangxi and Shandong provinces. We intend to establish new retail points and expand our sales network outside of Eastern China. We cannot assure you that our expansion will be successful in new markets. In addition, our expansion plan may place significant strain on our managerial, operational and financial resources. We may not be able to successfully manage the rapid growth of our sales network. Therefore, we cannot assure you that the intended growth of our sales network can be achieved or the newly established retail points will become profitable. In addition, any economic downturn, which may materially and adversely affect the profitability of our retail points, could result in longer lead-time for

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new retail points to reach optimal operating levels. If the expansion of our sales network is not successfully managed, our operating costs may increase and our financial condition and results of operation may be materially and adversely affected.

If we fail to manage the rapid growth of our sales network effectively, our business, financial condition, results of operations and prospects could be adversely affected

We have expanded our sales network rapidly in recent years. As at 31 October 2013, we had developed a strategic network of 438 retail points across China, comprising 225 self-operated retail points and 213 franchised retail points. We plan to continue to expand our sales network and geographical coverage of retail points by establishing 58 new retail points for the two months ending 31 December 2013 and 200 new retail points across China for the year ending 31 December 2014. However, we cannot assure you that we will be successful in implementation of our growth strategy. The capacities and growth of local markets and local customers' demands for our products may be limited and cannot support our expanded sales network. There could be overlapping coverage and unexpected competition between our existing retail points and newly established retail points due to our over expansion. As a result, the additional retail points may not perform as well as we anticipated. Under such circumstances, we may not effectively manage and implement our expansion plans or successfully integrate new retail points into our sales network. If any of the above occurs, our business, financial condition and results of operations could be adversely affected.

Our endeavours to launch new product lines may not be successful

We plan to further leverage our competitive strengths and enhance our product design capability in order to expand our product portfolio and launch new innovative product lines. To diversify our product portfolio, we also plan to introduce women's wear products in selected retail points in 2016 and further pilot test and market children's wear products two years thereafter if we successfully launch our women's wear products. The launch and development of new product lines involves considerable time and financial commitment that may impose a substantial strain on our ability to manage our existing business and operations. We have not launched any new product lines in the past. We cannot assure you that we possess, or may acquire, sufficient capabilities in designing and developing the new product lines. We may face inherent risks and uncertainties such as misjudgement of levels of consumers' demand as well as selling prices for the new products. We may also lack sufficient experience in management of the new product lines with respect to which we may face different market challenges, such as those relating to marketing, sales and competition. In addition, we may not be able to reach agreements with our franchisees for the distribution of, or receive little demand from our customers for, the newly developed products. Failure of any of our new products could lead to waste of our resources and damage to our reputation and could materially and adversely affect our business, financial condition and results of operations.

Product sales by terminated franchisees at discount may affect the image and reputation of our products

For the year ended 31 December 2010, 2011 and 2012 and for the six months ended 30 June 2013, we terminated relationships with 3, 21, 24 and 23 franchisees, respectively. Upon our approval, the terminated franchisees can sell remaining inventories at an average discount rate of approximately 50% to 80% from original retail prices. See the subsection headed "Business — Sales — Retail Points — Franchised Retail Points" in this prospectus for further details on the arrangements. In order to minimise

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the negative impact of such discounted products on the image of our Group, franchisees are required to remove our logo labels from all unsold products under our supervision after the termination. However, customers may still be able to recognise our products based on our product design, and styles. All of the above could have a material and adverse effect on our brand image and reputation. In the event that such negative image of our products persists, our product sales, market share and profitability may be adversely affected.

If we fail to anticipate and respond in a timely manner to the changes in online customers' preferences and demands, our financial condition, results of operations and prospects may be adversely affected

We have engaged and sold our products to an e-commerce distributor, which in turn markets and sells our products to consumers through online retail shops. We believe that the online sales depends on our ability to anticipate, identify and interpret online customers' preferences, fashion tastes and evolving demands. If we fail to anticipate accurately any shift in online customers' preferences and demands, or fail to introduce new and improved products in a timely manner, or adjust our product mix to satisfy those evolving preferences and demands, our online sales may decrease accordingly. In addition, under our business model, we focus on products that cater to evolving fashion trends and consumer preferences. However, we cannot assure you that online customers will accept our new products when we introduce them. If our new products fail to generate market interest, our business, financial condition and results of operations may be adversely affected.

Our ability to obtain additional financing may be limited, which could delay or prevent the completion of one or more of our strategies

We have financed our working capital and capital expenditure needs primarily through cash generated from our operation, bank borrowings, and capital contribution from our shareholders during the Track Record Period. Our capital needs may increase in the future as we continue to expand our business. Our ability to raise additional capital will depend on the performance of our current business and the successful implementation of our key strategic initiatives, as well as economic and market conditions and other factors, some of which are beyond our control. We may not be successful in raising any required capital on reasonable terms and in a timely manner, or at all. If we are not successful in raising additional capital or if new capital funding costs are higher than our prior capital funding costs, our business, financial condition and results of operations may be materially and adversely affected.

We rely on our N&Q brand

Brand image is a key factor that consumers may consider when purchasing men's fashion casual wear products. We rely on our N&Q brand to market our products to our targeted male customers aged between 25 to 40. If we fail to maintain our brand's position among our targeted consumer groups, the market perception and consumer acceptance of our brand may be eroded and our business, financial condition and results of operations may be adversely affected. Any negative publicity regarding us and our brand could have a material adverse effect on the public perception of our brand. We cannot assure you that we will be able to effectively maintain our brand's position among our targeted consumers and upon our failure to do so, the goodwill of our brand may be undermined and as a result, our business and results of operations may be materially and adversely affected.

RISK FACTORS

We may be affected by infringement of our intellectual property rights or counterfeiting of our products and we may be also involved in claims initiated by third parties alleging possible infringement of their intellectual property rights

Our success depends in large part on our trademarks and other intellectual property rights, including trade names, copyrights (including, among others, copyrights to computer software for our management information system) and domain names. We have obtained, or are otherwise in the process of renewing, the relevant trademark certificates with respect to the use or ownership, as the case may be, of our core trademarks. For details of our intellectual property rights, please refer to the subsection headed “Business — Intellectual Property Rights” in this prospectus. We rely on the PRC laws to protect our intellectual property rights. Before the completion of the registration or filing process, our rights in these trademarks may not be fully and adequately protected in the PRC. We may not be able to take action as a registered owner or user of these trademarks to protect them, and may need to seek alternative causes of action available under the PRC laws, which may or may not be successful. In addition, we cannot assure you that the registrations or filings will be completed on a timely basis, or at all. If we do not receive the trademark registrations or complete the filings as anticipated, we may lose our right to continue to use or exclusively use the relevant trademarks, which may materially and adversely affect our business and operations.

In addition, there is no assurance that third parties will not infringe on our intellectual property rights or that the actions taken by us will be adequate to prevent such infringement by others. We also cannot assure you that third parties will not imitate our design and trademarks and make products that are similar or caused confusion with our products. In the event that we are unable to adequately protect or safeguard our intellectual property rights, our business, financial condition and results of operations may be materially and adversely affected.

We may also face claims that our products infringe the intellectual property rights of third parties, including our competitors. If any legal proceeding against us for infringement of intellectual property rights of third parties is successful, we may be prohibited from manufacturing or selling products which rely on our use of such intellectual properties and our business, results of operation and reputation may be adversely affected. In addition, any of such proceeding and its consequences could be costly and could divert management’s attention from our business, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

We may be exposed to product liability claims

As at the Latest Practicable Date, all of our products were sold in the PRC. Under PRC law, we may be liable for product defects or quality issues as the seller of our products. We may be exposed to product liability claims or claim with respect to product quality. We believe that the risk of product liability claims or claims with respect to product quality being brought against us may increase as the PRC consumer protection laws develop and the concept of product liability develops and becomes mature among consumers in the PRC. We may not have effective or sufficient control over the quality of our products, and we cannot assure you that our business, financial condition, results of operations and prospects will not be materially and adversely affected by a successful product liability claim against us. We may incur significant costs and expenses for defending against product liability claims or

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entering into settlement agreements, and we may be fined or sanctioned by the relevant authorities, which could materially and adversely affect our reputation, business, financial condition and results of operations.

Our insurance coverage may not be sufficient to cover damages to our properties and other risks related to our operations

Our ability to meet the demands from, and to fulfil our contractual obligations to, our customers and franchisees and our ability to grow our business are dependent on the efficient, proper and uninterrupted operations of our self-operated and franchised retail points. However, we are subject to hazards and risks that are commonly associated with our operations. We have developed a strategic network of retail points. Fire, power failure or shortages, computer hardware and software failure, natural disasters such as floods, hurricanes, earthquakes and other events beyond our control could affect our ability to continue our operation and may adversely affect the product sales at our retail points. We currently store our products in our warehouses located in Fujian, Jiangsu, Jiangxi, Anhui, Hubei, Shandong and Sichuan provinces. We may also face the risk of loss, personal injuries, or damage to our properties, machinery and inventories due to the occurrence of any of the above events.

We currently do not maintain product liability insurance for our products. We also do not maintain any business interruption insurance in the PRC. We cannot assure you that our insurance policies are sufficient to cover all the risks associated with our operations. Losses incurred for liabilities not covered by our insurance policies may have a material and adverse effect on our business, financial condition and results of operations.

We may be subject to additional social insurance and housing fund contributions and late payments and fines imposed by relevant governmental authorities

In accordance with applicable PRC laws and regulations, we are required to contribute to a number of employee social welfare schemes for our employees. Such schemes include pension insurance, medical insurance, unemployment insurance, maternity insurance, job-related injury insurance and housing funds. We have contributed to the employee social welfare schemes based on local minimum wages according to our understanding of the general practice in Quanzhou and Jinjiang, Fujian province and Shanghai, as well as our communications with the relevant governmental authorities, whereas under the applicable PRC laws and regulations such contribution should instead be calculated based on actual wages of employees.

Our PRC legal adviser, Fujian Junli Law Firm, has advised us that in the event that the relevant social insurance and housing fund authorities demand our Group to pay the differences in social insurance and housing fund contributions, we shall be required to pay such differences and additional late payments (if applicable), and if our Group does not do so within the prescribed time limit, the relevant authorities may impose fines on us. See the subsection headed “Business — Employees” in this prospectus for further details. Our Group made provisions for the difference in social insurance contribution of approximately RMB1.8 million, RMB1.5 million, RMB0.9 million and RMB0.6 million for the year ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013. We also made provisions for the difference in housing fund contribution of approximately RMB1.0 million, RMB1.0 million, RMB0.9 million and RMB0.4 million for the year ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013. We cannot assure you that the provisions for such differences will be sufficient to cover the actual amounts if the local authorities require us to pay.

RISK FACTORS

We are subject to risks in relation to transportation services

Our third-party manufacturers engage third-party logistics service providers to deliver finished products from their premises directly to our warehouses. We arrange for delivery of products from our warehouses to our self-operated and franchised retail points either through our own delivery team or through third-party service providers. Delivery disruptions to transport operators may occur due to various reasons beyond our control, including transportation bottlenecks, typhoon, flood, earthquakes and other natural disasters and labour strikes, and could lead to delayed or lost deliveries. In addition, our products may face the risk of theft or damage due to any poor handling by us or the logistics companies. If our products are not delivered to the retail points on time, or are damaged or lost during delivery, we may have to pay compensation to the relevant parties and could lose certain customers as well as suffer harm to our reputation.

We are subject to inventory risk

We need to maintain certain inventory level to meet the market demand for our products as well as the requirements in relation to our expanded business. The balance of our inventory as at 31 December 2010, 2011 and 2012 and as at 30 June 2013 amounted to RMB61.0 million, RMB80.3 million, RMB111.2 million and RMB100.9 million, respectively, accounted for approximately 26.5%, 20.4%, 23.6% and 19.2%, respectively, of our total current assets. For the year ended 31 December 2010, we had write back of inventory provision in the amount of RMB49,000, and for the year ended 31 December 2011 and 2012 and six months ended 30 June 2013, we made inventory provision in the amount of RMB1.4 million, RMB2.4 million and RMB1.5 million, respectively. We adopt inventory control policy and measures to monitor the inventory levels of our self-operated retail points and those of our franchisees through our management information system. See the subsection headed “Business — Inventory Control and Logistics” in this prospectus for further details. We cannot assure you that our inventory control policy and measures will be implemented effectively, nor can we assure you that we can maintain the optimal inventory level of our retail points, or at all. In addition, we cannot assure you that we will not experience any slow movement of inventory at our self-operated and franchised retail points due to various seasons, which may result in reduced sales of our products and pressure on our operating cash flow, and we may subsequently incur significant provision as a result of a high level of obsolete inventories.

Increase in costs of outsourced production due to rising costs of raw materials and labour in the PRC, may adversely affect our business and our profitability

We generally do not maintain long-term contracts with our third-party manufacturers, and the prices that we pay for finished products that OEMs and ODMs provide may increase due to the fluctuation in prices of commodities, for example, cotton, the price of which has dramatically increased over the past three years. In addition, labour costs in the PRC have increased significantly in recent years and have impacted our cost structure. In addition to inflation and other factors, the implementation of the PRC Employment Contract Law (中華人民共和國勞動合同法), which became effective on 1 January 2008, also contributed to the increase in labour costs in the PRC. Among other things, the PRC Employment Contract Law imposes more stringent requirements on employers with respect to entry into fixed term employment contracts, dismissal of employees, provision of severance payment and paid annual leave for employees. We expect that the labour costs in the PRC will continue to increase in the future. Our employee benefit expense increased by RMB11.9 million, or 54.3%, from RMB21.9 million

RISK FACTORS

for the year ended 31 December 2010 to RMB33.8 million for the year ended 31 December 2011, and further by 10.4 million, or 30.8%, to RMB44.2 million for the year ended 31 December 2012. Moreover, it increased by RMB4.7 million, or 23.3%, from RMB20.4 million for the six months ended 30 June 2012 to RMB25.1 million for the six months ended 30 June 2013. If we are unable to identify and adopt other appropriate means to reduce costs of our outsourced production, or pass on to our customers an increase in costs of our outsourced production due to the rising cost of raw materials and labour, our business, financial condition and results of operations may be materially and adversely affected. Furthermore, we cannot assure you that any disputes, work stoppages or strikes will not arise in the future. Any future disputes with our employees could adversely affect our business, financial condition and results of operations.

Our success depends heavily on the continuing services of our senior management team and other key personnel

Our success depends heavily on the continuing services of our executive Directors, in particular, Mr. Ding Hui, and other members of our senior management. Competition for qualified sales and marketing and design personnel is very intense in the PRC. We are particularly dependent on our executive Directors as well as other senior management members for their vision to lead our Company and their industry knowledge and experience that are crucial to our business and operations. If we lose the services of any management team members and fail to find suitable substitutes in a timely manner, our business may be adversely affected.

RISKS RELATING TO OUR INDUSTRY

Fluctuations in consumer spending caused by changes in macroeconomic conditions in the PRC may significantly affect our business, financial condition, results of operations and prospects

We derive all of our revenue from sales of our products in the PRC. The success of our business depends on the condition and growth of the PRC consumer market, which, in turn, depends on worldwide economic conditions and individual income levels in the PRC and their impact on levels of consumer spending. There are many factors affecting the level of consumer spending, including but not limited to interest rates, currency exchange rates, recession, inflation, deflation, political uncertainty, taxation, stock market performance, unemployment level and general consumer confidence.

Economic conditions and consumer confidence deteriorated significantly in many countries and regions due to a worldwide financial crisis and economic downturn beginning in 2007. Economic growth in the PRC slowed down accordingly due to the impact of the worldwide financial crisis. The PRC economy has, to a certain extent, recovered after the financial crisis. However, there is no guarantee that the recovery will continue or be sustained. In particular, there can be no assurance that the robust growth rates that the PRC economy and the PRC consumer market have achieved in the past will be achieved in the future. Any further slowdown or decline in the PRC economy or consumer spending may materially and adversely affect our business, financial condition and results of operations.

We operate in a very competitive market and face intense competition

The men's fashion casual wear industry in the PRC is highly competitive, and the competitors in this market include both international and domestic companies. We compete against our competitors primarily on brand image, design capability, market positioning, sales network, retail point management

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and customer loyalty. Some of our competitors may have greater financial, management, human, distribution or other resources than us. Our results of operations could be affected by a number of competitive factors, including our competitors increasing their operational efficiencies, adopting competitive pricing strategies, expanding their operations, or adopting innovative retail sales methods or product designs. In addition, our competitors may endeavour to maintain and increase their market share, which may be at our expense. As a result, our results of operations and market position may be adversely affected.

RISKS RELATING TO THE PRC

The slowdown of the PRC economy may have a material and adverse effect on our results of operations and financial condition

We conduct all of our operations in the PRC and derive all of our revenue from our operations in the PRC. We rely on domestic demand for our products for our revenue growth. Accordingly, our business, financial condition, results of operations and prospects are materially affected by economic, political and social conditions in the PRC. China's economy differs from the economies of most developed countries in many respects, including the extent of government involvement, level of development, growth rate, and control of foreign exchange and allocation of resources. China's economy has grown significantly in recent years. However, as a result of the global economic weakness and the debt crisis in Europe, the Chinese economy slowed down in 2012. The PRC government has taken cautious measures not to repeat another massive fiscal stimulus package after the 2008 global financial crisis and to avoid causing inflation of the PRC economy. Any change in the economic, political and social conditions or government policies in the PRC could have a material adverse effect on overall economic growth, which in turn could lead to a reduction in demand for our products and consequently have a material adverse effect on our financial condition and results of operations.

Uncertainties with respect to the PRC legal system could have a material adverse effect on us

The PRC legal system is based on the PRC Constitution Law (中華人民共和國憲法) and consists of written laws, regulations, circulars and directives. The PRC government is still in the process of developing its legal system so as to meet investors' needs and to encourage foreign investment. As China's economy is developing at a faster pace than its legal system, some uncertainty arises regarding whether and how the existing PRC laws and regulations would apply to new events or circumstances.

Some laws and regulations, and relevant interpretation, implementation and enforcement thereof, are still subject to policy changes. There is no assurance that introduction of new laws, changes to existing laws and relevant interpretation and application, or delays in obtaining approvals from relevant governmental authorities would not have an adverse impact on our business or prospects.

Further, precedents on interpretation, implementation and enforcement of the PRC laws and regulations are limited. Unlike common law jurisdictions such as Hong Kong, decisions of precedent cases are not binding. Therefore, outcome of dispute resolutions in the PRC may not be as consistent or predictable as in other more developed jurisdictions. It may be even difficult to obtain timely enforcement of relevant laws and regulations in the PRC.

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Based on the above, the legal system in the PRC is still in a state of development and we may not be able to rely on legal protections available in the PRC. Therefore, in the event our rights are infringed, our business may be adversely affected. In addition, any litigation in the PRC may be protracted and result in substantial costs to us and diversion of our resources and management attention.

Government control of foreign currency conversion may limit our foreign exchange transactions, including dividend payments on our H Shares

The Renminbi currently is not a freely convertible currency. We receive substantially all of our revenues in Renminbi and may need to convert the Renminbi to foreign currency in order to meet our foreign currency obligations such as the payment of dividends, if any, to holders of our H Shares.

Under PRC laws and regulations, conversion of the Renminbi into foreign currencies for current account transactions, including the distribution of dividends and profits to foreign investors of H Share listed companies, is permissible and the approval of the SAFE is not required. H Share listed companies may remit foreign currencies from their bank accounts in the PRC upon presentation to banks of resolutions of shareholders' meeting authorising the distribution of profits or dividends, tax clearance certificate and subject to other requirements. However, conversion of the Renminbi into foreign currencies for capital account transactions, such as repatriation of capital, repayment of loans and for securities investment, is subject to state control and requires SAFE approval.

Following the completion of the Global Offering, we will be able to pay dividends in foreign currencies by complying with certain statutory requirements without prior approval from the SAFE. However, there is no assurance that these foreign exchange policies regarding payment of dividends in foreign currencies will continue. If we fail to obtain approval from the SAFE to convert the Renminbi into any foreign currency for capital account transactions, our capital expenditures, business, results of operation and financial condition may be materially adversely affected.

It may be difficult to enforce any judgements obtained from non-PRC courts against us or our Directors or Supervisors residing in the PRC

Except for Ms. Hsu Wai Man, Helen, all of our Directors and Supervisors reside in the PRC. In addition, substantially all of our assets and those of our Directors and Supervisors are located in the PRC. The PRC does not have treaties providing for the reciprocal recognition and enforcement of judgements of courts with the United States, the United Kingdom, Japan and many other countries. As a result, it may not be possible for investors to serve process upon us or those persons in the PRC, or to enforce against us or them in the PRC any judgements obtained from non-PRC courts.

Our Articles of Association and the Hong Kong Listing Rules provide that most disputes between holders of H Shares and us, our Directors or Supervisors arising out of the Articles of Association or the PRC Company Law and related regulations concerning our affairs, are to be resolved through arbitration. Under the current arrangement for reciprocal enforcement of arbitral awards between the PRC and Hong Kong, awards made by China's arbitral authorities in accordance with the PRC Arbitration Laws can be enforced in Hong Kong. Hong Kong arbitration awards made in accordance with HK Arbitration Ordinance are also enforceable in the PRC. On 14 July 2006, the Supreme People's Court of the PRC and the Government of the Hong Kong Special Administrative Region signed an Arrangement on Reciprocal Recognition and Enforcement of Judgements in Civil or Commercial Matters, which became effective on 1 August 2008. Under this arrangement, where any designated

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people's court in the PRC or Hong Kong court has made an enforceable final judgement requiring payment of money in a civil and commercial case pursuant to a choice of court agreement, any party concerned may apply to the relevant people's court in the PRC or Hong Kong court for recognition and enforcement of the judgement. The outcome and effectiveness of any action brought under this arrangement remains uncertain.

Holders of our H shares may be subject to PRC taxation for dividends received and gains realized in connection with H shares

Under current PRC tax laws, regulations and rules, non-PRC resident individuals and non-PRC resident enterprises are subject to different tax obligations with respect to the dividends paid to them by us or the gains realised upon the sale or other disposition of H Shares. Non-PRC resident individuals are required to pay PRC individual income tax at a 20% rate under the PRC Individual Income Tax Law in respect of dividends received from sources within the PRC. Accordingly, we are required to withhold such tax from dividend payments, unless applicable tax treaties between China and the jurisdictions in which the foreign individuals reside reduce or provide an exemption for the relevant tax obligations. Generally, a tax rate of 10% shall apply to the dividends paid by the company which is a PRC domestic non-foreign-invested enterprise listed in Hong Kong without application to applicable tax authorities according to the treaties. When a tax rate of 10% is not applicable, the withholding company shall (i) return the excessive tax amount if the applicable tax rate is lower than 10%, (ii) withhold such foreign individual income tax at the applicable tax rate if the applicable tax rate is between 10% and 20%, and (iii) withhold such foreign individual income tax at a rate of 20% if no double taxation treaty is applicable.

For non-PRC resident enterprises that do not have establishments or premises in the PRC, or have establishments or premises in the PRC but their income is not related to such establishments or premises, under the PRC Enterprise Income Tax Law (the "EIT Law"), dividends paid by us and the gains realised by such foreign enterprises upon the sale or other disposition of H Shares are ordinarily subject to PRC enterprise income tax at a 20% rate. In accordance with the Notice on the Issues Concerning Withholding the Enterprise Income Tax on the Dividends Paid by Chinese Resident Enterprise to Shareholders Which are Overseas Non-resident Enterprises issued by the State Administration of Taxation, such tax rate has been reduced to 10%, subject to a further reduction under a special arrangement or applicable treaty between China and the jurisdiction of the residence of the relevant Non-PRC resident enterprise.

There remains uncertainty as to the interpretation and application of the PRC tax laws by the relevant tax authorities, including whether and how PRC individual income tax or PRC enterprise income tax will be imposed on gains from disposition of our H shares by the relevant holders. If such tax is imposed, the investment return of our H shares may be materially and adversely affected.

Payment of dividends is subject to restrictions under the PRC laws

Under PRC law, dividends may be paid only out of distributable profit. Distributable profit is our profit as determined under PRC GAAP or IFRS, whichever is lower, less any recovery of accumulated losses and appropriations to statutory and other reserves that we are required to make. As a result, we may not have sufficient or any distributable profit to make dividend distributions to our Shareholders, even when we are profitable. Any distributable profit not distributed in a given year is retained and available for distribution in subsequent years.

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Moreover, because the calculation of distributable profit under PRC GAAP is different from the calculation under IFRS in certain respects, our operating subsidiaries may not have distributable profit as determined under PRC GAAP, even if they have profit for that year as determined under IFRS, or vice versa. Accordingly, we may not receive sufficient distributions from our subsidiaries. Failure by our operating subsidiaries to pay us dividends could negatively impact our cash flow and our ability to make dividend distributions to our Shareholders, even when we are profitable.

The potential conversion of Domestic Shares into H Shares may result in an increase in the number of H Shares available on the market and may affect the price of the H Shares

Holders of Domestic Shares may apply for approval with the CSRC or the authorised approval authorities of the State Council to convert their Domestic Shares into H Shares. After obtaining such approval, these Domestic Shares will be converted into H Shares, and the H Shares upon conversion may be listed or traded on an overseas securities exchange. Any listing or trading of the above-mentioned H Shares on an overseas securities exchange shall also comply with the regulatory procedures, rules and requirements of the relevant overseas securities exchange. Unless otherwise required by the overseas securities exchange, there is no requirement for the listing and trading of the above-mentioned H Shares to be approved in a class meeting of our Company. Potential conversion of a substantial amount of Domestic Shares into H Shares could further increase the supply of our H Shares in the market and could negatively impact the market price of our H Shares.

Any recurrence of severe acute respiratory syndrome, or SARS, pandemic avian influenza or an increase in the severity of H1N1 flu (swine flu) or another widespread public health problem could materially and adversely affect our business and results of operation

From November 2002 to June 2003, the PRC and certain other countries and regions experienced an outbreak of a new and highly contagious form of atypical pneumonia known as SARS. On 5 July 2003, the World Health Organisation declared that the SARS outbreak had been contained. However, a number of isolated cases of SARS were reported in the PRC in April 2004. In early 2013, a number of avian influenza cases which resulted in deaths were reported in several cities in Eastern China. A renewed outbreak of SARS, pandemic avian influenza or an increase in the severity of H1N1 flu (swine flu) or another widespread public health problem in the PRC, particularly in the locations where our headquarters are located as well as we have operations, could have a negative effect on our operations. Our operations may be affected by a number of health related factors, including quarantines or closures of some of our offices and retail points, the sickness or death of our key officers and employees, and import and export restrictions, which would severely disrupt our operations. Additionally, the World Health Organisation or the PRC government may recommend or impose other measures that could cause significant interruption to our business operations. Any of the foregoing events or other unforeseen consequences of public health problems could materially and adversely affect our business, financial condition and results of operation.

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RISKS RELATING TO THE GLOBAL OFFERING

There has been no prior public market for our H Shares

Prior to the Global Offering, there was no public market for the H Shares. We have applied to the Hong Kong Stock Exchange for the listing of, and permission to deal in, the H Shares. However, there is no assurance that the Global Offering will result in the development of an active and liquid public trading market for the H Shares. The market price, liquidity and trading volume of the H Shares may be volatile.

We cannot assure you that our Shareholders will be able to sell their H Shares or achieve their desired prices for, or any profit on, such H Shares. Shareholders may not be able to sell their H Shares at prices equal to or greater than the price paid for their H Shares in the Global Offering. Factors that may affect the volume and price at which the H Shares will be traded include, among other things, variations in our revenues, earnings, cash flows, costs, announcements of new investments and changes in PRC laws and regulations. We cannot assure you that these factors will not have a negative impact on the market price of our H Shares. In addition, shares of other companies listed on the Hong Kong Stock Exchange with significant operations and assets in the PRC have experienced price volatility in the past, and it is possible that the H Shares may be subject to changes in price not directly related to our performance.

Future sales, or market perception of sales, of substantial amounts of our H Shares in the public market, including any future offerings, could have a material adverse effect on the market price of our H Shares and make it difficult for you to recover the full value of your investment

The market price of our H Shares could decline as a result of future sales of substantial amounts of our H Shares or other securities relating to our H Shares in the public market, or the issuance of new H Shares or other securities relating to our H Shares, or the market perception that such sales or issuances may occur. Future sales, or perceived sales, of substantial amounts of our H Shares could materially adversely affect the market prices of our H Shares and may also materially and adversely affect our ability to raise capital in the future. In addition, our Shareholders would experience dilution in their holdings upon our issuance or sale of additional securities in future offerings.

Certain facts, forecasts and other statistics with respect to the PRC, the PRC's economy and the PRC men's fashion casual wear industry in this prospectus are derived from various government and official resources, government publications and other publications and may not be reliable

Certain facts, forecasts and other statistics in this prospectus relating to the PRC, the PRC's economy and the PRC men's fashion casual wear industry have been derived from various government and official sources generally believed to be reliable. However, we cannot assure you the quality or reliability of such source materials. While our Directors have taken reasonable care to ensure that the facts and statistics presented are accurately reproduced from such government or official resources, they have not been prepared or independently verified by us, the Sole Global Coordinator, the Sole Sponsor, the Joint Bookrunners or the Underwriters, nor any of our or their respective affiliates or advisers and, therefore, we and they make no representation as to the accuracy or completeness of such facts, forecasts and statistics, which may not be consistent with other information compiled within or outside the PRC.

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Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice and other problems, such statistics may be inaccurate or may not be comparable to statistics produced for other economies and should not be unduly relied upon. Further, there is no assurance that they are stated or compiled on the same basis or with the same degree of accuracy or completeness as may be the case elsewhere. Nonetheless, our Directors have taken reasonable care in compiling and reproducing these facts, forecasts and statistics in this prospectus from the official government publications.

You will experience immediate dilution and may experience further dilution if we issue additional H Shares or equity-linked securities

The Offer Price of the H Shares is higher than the net tangible asset value per Share immediately prior to the Global Offering. Therefore, you and other purchasers of the H Shares in the Global Offering will experience an immediate dilution in pro forma net tangible asset value of approximately HK\$0.98 per H Share (assuming an Offer Price of HK\$2.46 per H Share, being the mid-point of our Offer Price range between HK\$2.03 and HK\$2.88 per H Share), and existing holders of our Shares will receive an increase in net tangible asset value per share of their Shares. If we issue additional H Shares or equity-linked securities at a price lower than the net tangible asset value per Share at the time of issuance, you and other purchasers of our H Shares may experience further dilution in the net tangible asset value per Share.

You should rely on this prospectus in making investment decisions with respect to our H Shares

Prior to the publication of this prospectus, there has been press and media coverage regarding us and the Global Offering, which may include certain information not contained in this prospectus. We have not authorised disclosure of any such information in the press or other media. Such media coverage, whether or not accurate and whether or not applicable to us, may have a material adverse effect on our reputation, business, financial condition and the price of our H Shares. We make no representation as to the appropriateness, accuracy, completeness or reliability of such information, and disclaim responsibility for such information. Therefore, you are strongly cautioned not to rely on press articles or other media in making your investment decisions with respect to our H Shares.

Accordingly, prospective investors are cautioned to make their investment decisions with respect to our H Shares on the basis of the information contained in this prospectus only and should not rely on any other information. By applying to purchase our H Shares in the Global Offering, you will be deemed to have agreed that you will not rely on any information other than that contained in this prospectus.

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Since there will be a gap of several days between pricing and trading of our Offer Shares, holders of our Offer Shares are subject to the risk that the price of our Offer Shares could fall during the period before trading of our Offer Shares begins

The Offer Price of our H Shares is expected to be determined on the Price Determination Date. However, our H Shares will not commence trading on the Hong Kong Stock Exchange until they are delivered, which is expected to be four Business Days after the Price Determination Date. As a result, investors may not be able to sell or otherwise deal in our H Shares during that period. Accordingly, holders of our H Shares are subject to the risk that the price of our H Shares could fall before trading begins as a result of adverse market conditions or other adverse developments that could occur between the time of sale and the time when trading of our H Shares begins.

WAIVER FROM COMPLIANCE WITH THE HONG KONG LISTING RULES

In preparation for the Listing, we have sought the following waiver from compliance with the relevant provision of the Hong Kong Listing Rules:

MANAGEMENT PRESENCE

Rules 8.12 and 19A.15 of the Hong Kong Listing Rules require that a new applicant applying for a primary listing on the Hong Kong Stock Exchange must have a sufficient management presence in Hong Kong. This normally means that at least two of its executive Directors must be ordinarily resident in Hong Kong.

Since the business, operations and production facilities of our Group are primarily located, managed and conducted in the PRC, there is no business need to appoint executive directors in Hong Kong. All of the executive Directors and the majority of our Group's senior management are, and will continue to be, based in the PRC. Substantially all of our Group's assets are based in the PRC. Our Company does not, and does not contemplate in the foreseeable future that it will have a sufficient management presence in Hong Kong for the purpose of satisfying the requirement under Rules 8.12 and 19A.15 of the Hong Kong Listing Rules.

An application for a waiver from compliance with the requirement to have a sufficient management presence in Hong Kong under Rules 8.12 and 19A.15 of the Hong Kong Listing Rules has been made to the Hong Kong Stock Exchange and such waiver has been granted by the Hong Kong Stock Exchange.

The arrangements proposed by our Company for maintaining at all times regular, adequate and effective communication with the Hong Kong Stock Exchange for the purposes of Rules 3.05, 3.06, 8.12 and 19A.15 of the Hong Kong Listing Rules are as follows:

- (a) our Company has appointed and will continue to maintain two authorised representatives pursuant to Rule 3.05 of the Hong Kong Listing Rules who will act as our Company's principal point of communication with the Hong Kong Stock Exchange. The two authorised representatives proposed to be appointed are Mr. Ding Hui (an executive Director of our Company) and Mr. Au Yeung Ho Yin (the company secretary of our Company). The authorised representatives, and their alternate authorised representative, will have the means to contact all our Directors promptly at all times as and when the Hong Kong Stock Exchange wishes to contact our Directors on any matters. They have provided their usual contact details to the Hong Kong Stock Exchange and will be readily contactable by the Hong Kong Stock Exchange if necessary to deal with enquiries from the Hong Kong Stock Exchange from time to time. Each of the two authorised representatives is authorised to communicate on behalf of our Company with the Hong Kong Stock Exchange. Our Company will inform the Hong Kong Stock Exchange promptly if there is any change in our authorised representatives or the contact details of any of them;
- (b) each Director who is not ordinarily resident in Hong Kong currently possesses valid travel documents to visit Hong Kong and will be able to meet with the Hong Kong Stock Exchange within a reasonable period of time upon prior notice from the Hong Kong Stock Exchange, if required;

WAIVER FROM COMPLIANCE WITH THE HONG KONG LISTING RULES

- (c) our Company has appointed CCBI as its compliance adviser pursuant to Rule 3A.19 of the Hong Kong Listing Rules who will also act as an additional point of contact between our Company and the Hong Kong Stock Exchange for the period commencing on the Listing Date and ending on the date on which our Company complies with Rule 13.46 of the Hong Kong Listing Rules in respect of its financial results for the first full financial year commencing after the Listing Date. Our Company will inform the Hong Kong Stock Exchange promptly of any change of its compliance adviser;
- (d) our Company will appoint other professional advisers (including legal advisers and accountants) to advise on on-going compliance requirements and other issues arising under the Hong Kong Listing Rules and other applicable laws and regulations in Hong Kong and to ensure that there will be efficient communication with the Hong Kong Stock Exchange after the Listing; and
- (e) each of our Directors has provided his respective mobile phone number, office phone number, e-mail address and fax number to the Hong Kong Stock Exchange. In the event that a Director expects to travel outside Hong Kong, he shall provide to the authorised representatives the phone numbers of the place of his accommodations outside Hong Kong or the phone numbers where he can be contacted outside Hong Kong.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which our Directors collectively and individually accept full responsibility, includes particulars in detail given in compliance with the Companies Ordinance, the Securities and Futures (Stock Market Listing) Rules of Hong Kong and the Hong Kong Listing Rules for the purpose of giving our information to the public with regard to the Group. Our Directors, having made all reasonable enquiries confirm that, to the best of their knowledge and belief, the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make this prospectus or any statement herein misleading.

APPROVAL OF THE CSRC

We submitted an application to the CSRC on 27 June 2013 to apply for listing of the H Shares on the Hong Kong Stock Exchange and for the Global Offering and we obtained the letter of acceptance from the CSRC on 5 July 2013.

On 9 December 2013, the CSRC issued an approval letter for the submission of the application to list our H Shares on the Hong Kong Stock Exchange and for the Global Offering. In granting such approval, the CSRC accepts no responsibility for our financial soundness, nor for the accuracy of any of the statements made or opinions expressed in this prospectus or on the Application Forms.

As advised by our PRC legal adviser, Fujian Junli Law Firm, we have complied with all PRC laws and regulations relating to the Global Offering.

UNDERWRITING AND INFORMATION ON THE GLOBAL OFFERING

This prospectus is published solely in connection with the Hong Kong Public Offering. For applications under the Hong Kong Public Offering, this prospectus and the Application Forms contain the terms and conditions of the Hong Kong Public Offering. The Global Offering comprises the Hong Kong Public Offering of 15,000,000 H Shares initially offered and the International Offering of 135,000,000 H Shares initially offered (subject, in each case, to reallocation on the basis under the section headed "Structure of the Global Offering" in this prospectus).

The listing of our H Shares on the Hong Kong Stock Exchange is sponsored by the Sole Sponsor. Pursuant to the Hong Kong Underwriting Agreement, the Hong Kong Public Offering is underwritten by the Hong Kong Underwriters on a conditional basis, with one of the conditions being that the Offer Price is agreed between the Joint Bookrunners and us. The International Offering is managed by the Joint Bookrunners. The International Underwriting Agreement is expected to be entered into on or about 3 January 2014, subject to agreement on the Offer Price between the Joint Bookrunners (on behalf of itself and the Underwriters) and us. Further details of the Underwriters and the underwriting arrangements are set out in the section headed "Underwriting" in this prospectus.

The H Shares are offered solely on the basis of the information contained and representations made in this prospectus and on the Application Forms and on the terms and subject to the conditions set out herein and therein. No person is authorised to give any information in connection with the Global Offering or to make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorised by our Company,

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors, agents, employees or advisers or any other party involved in the Global Offering.

Neither the delivery of this prospectus nor any subscription or acquisition made under it shall, under any circumstances, create any implication that there has been no change in our affairs since the date of this prospectus or that the information in this prospectus is correct as at any subsequent time.

Details of the structure of the Global Offering, including its conditions, are set out in the section headed “Structure of the Global Offering” in this prospectus, and the procedures for applying for our H Shares are set out in the section headed “How to Apply for Hong Kong Public Offer Shares” of this prospectus and on the relevant Application Forms.

DETERMINATION OF THE OFFER PRICE

The H Shares are being offered at the Offer Price which will be determined by the Joint Bookrunners and us on or around 3 January 2014 or such later date as may be agreed upon between the Joint Bookrunners and us, and in any event no later than 6 January 2014. If the Joint Bookrunners and our Company are unable to reach an agreement on the Offer Price on such date, the Global Offering will not proceed.

RESTRICTIONS ON OFFER AND SALE OF THE H SHARES

No action has been taken to permit a public offering of the H Shares in any jurisdiction other than Hong Kong, or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation for subscription in any jurisdiction or in any circumstances in which such an offer or invitation for subscription is not authorised or to any person to whom it is unlawful to make such an offer or invitation for subscription. The distribution of this prospectus and the offering and sales of the H Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exemption therefrom. Each person acquiring the H Shares under the Hong Kong Public Offering will be required to confirm, or be deemed by his acquisition of the H Shares to confirm, that he is aware of the restrictions on offers and sales of the H Shares in this prospectus. In particular, the H Shares have not been publicly offered or sold, directly or indirectly, in the PRC or the United States.

APPLICATION FOR LISTING ON THE HONG KONG STOCK EXCHANGE

We have applied to the Listing Committee of the Hong Kong Stock Exchange for the granting of listing of, and permission to deal in, our H Shares to be issued pursuant to the Global Offering and upon the exercise of the Over-allotment Option. Subject to the approval of the CSRC or the authorised approval authorities of the State Council, our Domestic Shares may be converted into H Shares, details of which are set out in the section headed “Share Capital” in this prospectus.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

Dealings in the H Shares on the Hong Kong Stock Exchange are expected to commence at 9:00 a.m. on 9 January 2014. Except for our pending application to the Hong Kong Stock Exchange for the listing of, and permission to deal in, the H Shares, no part of our share or loan capital is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or proposed to be sought in the near future.

Under section 44B(1) of the Companies Ordinance, any allotment made in respect of any application will be invalid if the listing of, and permission to deal in, the H Shares on the Hong Kong Stock Exchange is refused before the expiration of three weeks from the date of the closing of the application lists, or such longer period (not exceeding six weeks) as may, within the said three weeks, be notified to our Company by or on behalf of the Hong Kong Stock Exchange.

COMPLIANCE WITH THE HONG KONG LISTING RULES

We will comply with applicable laws and regulations in Hong Kong (including the Hong Kong Listing Rules) and any other undertakings which have been given in favour of the Hong Kong Stock Exchange from time to time. If the Listing Committee finds that there has been a breach by us of the Hong Kong Listing Rules or such other undertakings which may have been given in favour of the Hong Kong Stock Exchange from time to time, the Listing Committee may instigate cancellation or disciplinary proceedings in accordance with the Hong Kong Listing Rules.

REGISTRATION OF SUBSCRIPTION, PURCHASE AND TRANSFER OF H SHARES

We have instructed the H Share Registrar, and the H Share Registrar has agreed, not to register the subscription, purchase or transfer of any H Shares in the name of any particular holder unless the holder delivers a signed form to the H Share Registrar in respect of those H Shares bearing statements to the effect that the holder:

- (a) agrees with us and each of our Shareholders, and we agree with each Shareholder, to observe and comply with the PRC Company Law, the Special Regulations and our Articles of Association;
- (b) agrees with us, each of our Shareholders, Directors, Supervisors, managers and officers, and we, acting for ourselves and for each of our Directors, Supervisors, managers and officers agree with each Shareholder, to refer all differences and claims arising from our Articles of Association or any rights or obligations conferred or imposed by the PRC Company Law or other relevant laws and administrative regulations concerning our affairs to arbitration in accordance with our Articles of Association, and any reference to arbitration shall be deemed to authorise the arbitration tribunal to conduct hearings in open session and to publish its award, which shall be final and conclusive;
- (c) agrees with us and each our Shareholders that our H Shares are freely transferable by the holders of our H Shares; and
- (d) authorises us to enter into a contract on his or her behalf with each of our Directors, Supervisors, managers and officers whereby such Directors, Supervisors, managers and officers undertake to observe and comply with their obligations to our Shareholders as stipulated in our Articles of Association.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

PROFESSIONAL TAX ADVICE RECOMMENDED

Potential investors in the Global Offering are recommended to consult their professional advisers as to the taxation implications of subscribing for, purchasing, holding or disposal of, and/or dealing in the H Shares or exercising rights attached to them. It is emphasised that none of us, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors, officers, employees, agents or representatives or any other person or party involved in the Global Offering accepts responsibility for any tax effects on, or liabilities of, any person resulting from the subscription, purchase, holding, disposition of, or dealing in, the H Shares or exercising any rights attached to them.

OVER-ALLOTMENT AND STABILISATION

Details of the arrangement relating to the Over-allotment Option and stabilisation are set out under the section headed “Structure of the Global Offering” in this prospectus.

PROCEDURES FOR APPLICATION FOR THE H SHARES

The procedures for applying for the H Shares are set out in the section headed “How to Apply for Hong Kong Public Offer Shares” in the prospectus and on the Application Forms.

STRUCTURE OF THE GLOBAL OFFERING

Details of the structure of the Global Offering, including its conditions, are set out in the section headed “Structure of the Global Offering” in this prospectus.

H SHARE REGISTER AND STAMP DUTY

All the H Shares issued pursuant to applications made in the Hong Kong Public Offering and the International Offering will be registered on the H Share register of members of our Company maintained in Hong Kong. We will maintain the Company’s principal register of members at our current registered place in the PRC.

Dealings in the H Shares registered in the H Share register of members of our Company in Hong Kong will be subject to Hong Kong stamp duty.

Unless determined otherwise by the Company, dividends payable in Hong Kong dollars in respect of our H Shares will be paid to the Shareholders listed on the H Share register of members of our Company in Hong Kong, by ordinary post, at the Shareholders’ risk, to the registered address of each Shareholder of the Company.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of the listing of, and permission to deal in, the H Shares on the Hong Kong Stock Exchange and compliance with the stock admission requirements of HKSCC, our H Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in our H Shares on the Hong Kong Stock Exchange or on any other date HKSCC chooses. Settlement of transactions between participants of the Hong Kong Stock Exchange is required to take place in CCASS on the second Business Day after any trading day. All

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangements as such arrangements may affect their rights and interests. All necessary arrangements have been made enabling the H Shares to be admitted into CCASS.

EXCHANGE RATE CONVERSION

Solely for your convenience, this prospectus contains translations among certain amounts denominated in Renminbi and Hong Kong dollars. No representation is made and none should be construed as being made that the amounts denominated in one currency could actually be converted into the amounts denominated in another currency at the rates indicated or at all on such date or any other date. Unless indicated otherwise, the translations between Renminbi and Hong Kong dollars were made at the rate of RMB0.7892 to HK\$1.00, being the PBOC rate prevailing on 20 December 2013.

LANGUAGE

If there is any inconsistency between this prospectus and the Chinese translation of this prospectus, this prospectus shall prevail. However, the translated English names of the PRC nationals, entities, departments, facilities, certificates, titles, laws, regulations (including certain of our subsidiaries) and the like included in this prospectus and for which no official English translation exists are unofficial translations for your reference only. If there is any inconsistency, the Chinese name prevails.

ROUNDING

Certain amounts and percentages figures included in this prospectus have been subject to rounding adjustments, or have been rounded to one or two decimal places. Any discrepancies between totals and sums of amounts listed in any table are due to rounding.

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

DIRECTORS AND SUPERVISORS

<u>Name</u>	<u>Address</u>	<u>Nationality</u>
Executive Directors		
Ding Hui (丁輝) (<i>Chairman</i>)	No. 80 Aolinpike Garden Quanzhou City Fujian province PRC	Chinese
Ding Canyang (丁燦陽)	No. 36 Jinxin Road Xiban Village, Chendai Town Jinjiang City Fujian province PRC	Chinese
Chen Quanyi (陳全懿)	Fujian Nuoqi Co., Ltd. Room 711, Staff Quarter Nuoqi Creative Enterprises Zone No. 55 Chongwen Road Economic and Technical Development Zone Quanzhou Fujian province PRC	Chinese
Jin Wenge (金文戈)	Fujian Nuoqi Co., Ltd. Room 708, Staff Quarter Nuoqi Creative Enterprises Zone No. 55 Chongwen Road Economic and Technical Development Zone Quanzhou Fujian province PRC	Chinese
Non-executive Directors		
Han Huiyuan (韓惠源)	Room 2102 No. 189 Huang Pu Avenue West Tianhe District Guangzhou Guangdong province PRC	Chinese
Ding Lixia (丁麗霞)	No. 51 Xiaokang Road Jiangtou Village, Chendai Town Jinjiang City Fujian province PRC	Chinese

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Name	Address	Nationality
Independent non-executive		
Directors		
Qi Xiaozhai (齊曉齋)	Flat 512 No. 13, Alley 630 Quyong Road Shanghai PRC	Chinese
Kong Yuquan (孔雨泉)	Room 1302, Block 13 Zhong Xin Red Tree Bay Nanshan District Shenzhen Guangdong province PRC	Chinese
Hsu Wai Man, Helen (徐慧敏)	Flat A, 15/F Block 4, City Garden North Point Hong Kong	Chinese
Supervisors		
Gu Tao (顧濤)	Room 202, Block B Commercial Bureau Qing Yang Xia Hang Jinjiang Fujian province PRC	Chinese
Ye Yongguan (葉永觀)	120D No. 683 Hu Bin South Road Si Ming District Xiamen Fujian province PRC	Chinese
Guo Zhuojun (郭卓君)	Room 410, Block 6 Bai Hong Wall Street Yang Guang Road West Qing Yang District Jinjiang Fujian province PRC	Chinese

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

PARTIES INVOLVED

<u>Name</u>	<u>Address</u>
Sole Global Coordinator and Sole Sponsor	CCB International Capital Limited 12/F., CCB Tower 3 Connaught Road Central Central Hong Kong
Joint Bookrunners	CCB International Capital Limited 12/F., CCB Tower 3 Connaught Road Central Central Hong Kong BOCI Asia Limited 26th Floor, Bank of China Tower 1 Garden Road Central Hong Kong RHB OSK Securities Hong Kong Limited 12th Floor, World-Wide House 19 Des Voeux Road Central Central Hong Kong
Join Lead Managers	CCB International Capital Limited 12/F., CCB Tower 3 Connaught Road Central Central Hong Kong BOCI Asia Limited 26th Floor, Bank of China Tower 1 Garden Road Central Hong Kong RHB OSK Securities Hong Kong Limited 12th Floor, World-Wide House 19 Des Voeux Road Central Central Hong Kong

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

<u>Name</u>	<u>Address</u>
Legal advisers to our Company	<i>As to Hong Kong law</i> Stephenson Harwood 35/F, Bank of China Tower 1 Garden Road Central Hong Kong <i>as to PRC law</i> Fujian Junli Law Firm 7/F, Wuyi Centre 33 East Street Fuzhou, PRC
Legal advisers to the Underwriters	<i>As to Hong Kong Law</i> Morrison & Foerster 33/F, Edinburgh Tower The Landmark 15 Queen's Road Central Hong Kong <i>as to PRC law</i> Jingtian & Gongcheng 34/F, Tower 3, China Central Place 77 Jianguo Road Chaoyang District Beijing 100025, PRC
Reporting Accountants	Ernst & Young Certified Public Accountants 22/F CITIC Tower 1 Tim Mei Avenue Central Hong Kong
Property valuer	Jones Lang LaSalle Corporate Appraisal and Advisory Limited 6/F, Three Pacific Place 1 Queen's Road East Admiralty Hong Kong

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Name	Address
Receiving banks	Standard Chartered Bank (Hong Kong) Limited 15/F Standard Chartered Tower 388 Kwun Tong Road Kowloon Hong Kong
	China Construction Bank (Asia) Corporation Limited 22/F CCB Centre 18 Wang Chiu Road, Kowloon Bay Kowloon Hong Kong
	Bank of Communications Co., Ltd. Hong Kong Branch 20 Pedder Street Central Hong Kong

CORPORATE INFORMATION

Registered office	No. 98 Chonghong Road Economic and Technical Development Zone Quanzhou Fujian province PRC
Principal place of business in PRC	Nuoqi Creative Enterprises Zone No. 55 Chongwen Road Economic and Technical Development Zone Quanzhou Fujian province PRC
Place of business in Hong Kong	35th Floor Bank of China Tower 1 Garden Road Central Hong Kong
Company website	www.nuoqi.com.hk <i>(information contained in this website does not form part of this prospectus)</i>
Company secretary	Au Yeung Ho Yin (歐陽浩然), HKICPA, GradICSA
Authorised representative	Ding Hui (丁輝) No. 80 Aolinpike Garden Quanzhou City Fujian province PRC Au Yeung Ho Yin (歐陽浩然) Flat B, 19/F, Tower 5, Phase 6, Bel-Air No. 8 8 Bel-Air Peak Avenue Pok Fu Lam Hong Kong
Audit committee	Hsu Wai Man, Helen (徐慧敏) (Chairman) Kong Yuquan (孔雨泉) Qi Xiaozhai (齊曉齋)
Remuneration committee	Qi Xiaozhai (齊曉齋) (Chairman) Hsu Wai Man, Helen (徐慧敏) Chen Quanyi (陳全懿)

CORPORATE INFORMATION

Nomination committee	Kong Yuquan (孔雨泉) (Chairman) Qi Xiaozhai (齊曉齋) Ding Canyang (丁燦陽)
H Share Registrar	Computershare Hong Kong Investor Services Limited Shops 1712–1716, 17th Floor Hopewell Centre 183 Queen’s Road East Wanchai Hong Kong
Compliance adviser	CCB International Capital Limited 12/F., CCB Tower 3 Connaught Road Central Central Hong Kong
Principal banks	China Minsheng Banking Corp., Ltd. Quanzhou branch 689 Citong Road Quanzhou Fujian province PRC The Bank of China Quanzhou branch Bank of China Tower Fengze Street Quanzhou Fujian province PRC Industrial Bank Co., Ltd. Quanzhou Xinmen sub-branch 157 Xinmen Street Quanzhou Fujian province PRC

INDUSTRY OVERVIEW

This section contains certain information which is derived from official government publications and industry sources, as well as a report we commissioned from Frost & Sullivan (the “Frost & Sullivan Report”), an Independent Third Party. We believe that the sources of this information are appropriate sources for such information, and we have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. The information derived from the above sources has not been independently verified by us, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Underwriters or any other party involved in the Global Offering, and no representation is given as to its accuracy.

SOURCES OF INFORMATION

We commissioned Frost & Sullivan to conduct an analysis of, and to report on, the PRC menswear market and the PRC men’s fashion casual wear market from 2008 to 2012. Frost & Sullivan has been engaged in a number of market assessment projects in connection with initial public offerings in Hong Kong, covering the PRC apparel industries in particular. We have agreed to pay a fee of approximately RMB0.7 million for the Frost & Sullivan Report, which will be paid prior to the Listing. Our Directors are of the view that the payment of the fee does not affect the fairness of conclusions in the Frost & Sullivan Report. Frost & Sullivan is an independent market research firm founded in 1961 and has over 35 global offices with more than 1,800 industry consultants, market research analysts, technology analysts and economists. Its services include technology research, market research, economic research, corporate best practices advising, training, customer research, competitive intelligence and corporate strategy. The Frost & Sullivan Report includes both historical and forecast information on the PRC retail industry, the PRC menswear market, the PRC men’s fashion casual wear market, and other economic data. Frost & Sullivan undertook both primary and secondary independent researches through various resources within the PRC menswear industry. The primary research involved interviewing the leading industry participants of menswear brand owners, retailers and distributors, industry experts and 1,080 end-users in third- and fourth-tier cities. The secondary research involved reviewing company reports, independent research reports and data in Frost & Sullivan’s own research database. In the preparation of this report, Frost & Sullivan used secondary research as an initial research platform. In depth, telephone and face-to-face interviews were conducted with various manufacturers and distributors as the key methodologies used by Frost & Sullivan to obtain the information and data for preparation of this report.

Frost & Sullivan also adopted the following primary assumptions while making projection for the PRC menswear market and the PRC men’s fashion casual wear market:

- China’s economy is likely to maintain a steady growth in the next decade with ongoing urbanisation;
- China’s social, economic and political environment is likely to remain stable in the forecast period, which ensures the stable and healthy development of the PRC menswear market and the PRC men’s fashion casual wear market;
- Industry key drivers are likely to continue to drive the PRC menswear market in the forecast period, such as rising household income, rising purchasing power and growing retail market;

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- The negative impact of high inventory level on the PRC menswear market is in short terms and can be offset by rising demands from male consumers; and
- Industry key drivers are likely to drive the PRC men's fashion casual wear market in the forecast period, such as younger generation consumers, increasing pursuit of fashion and personality, and growing fashion sense and brand awareness.

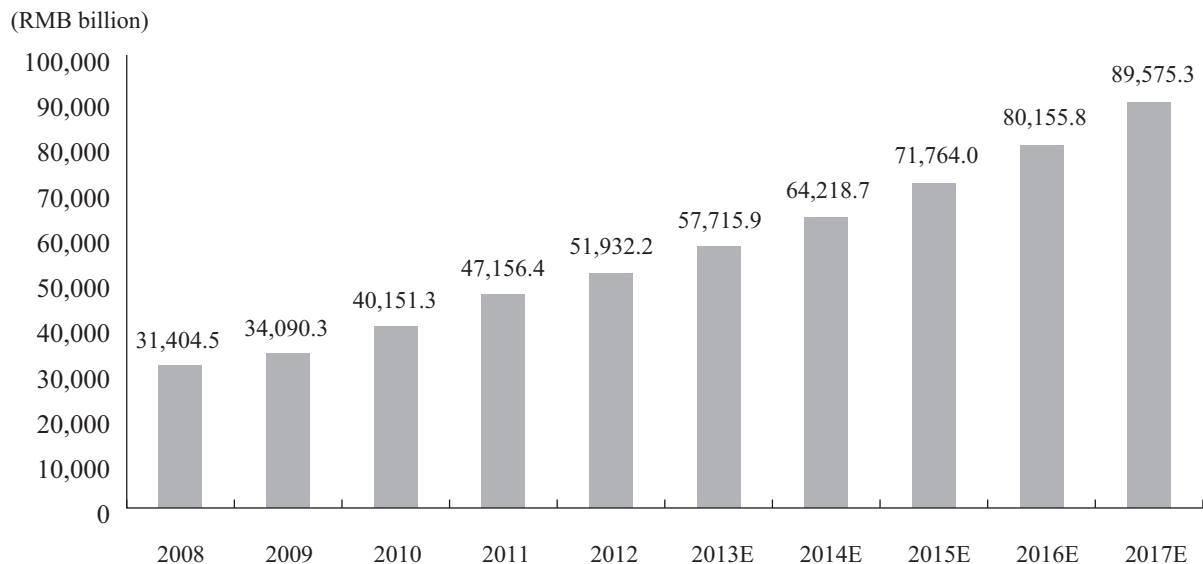
All statistics are reliable and are based on information available as at the date of this report. Other sources of information, including government, trade associations or marketplace participants, may have provided some of the information on which the analysis or data is based.

OVERVIEW OF THE PRC ECONOMY

Rapid Growth of the PRC Economy

The PRC economy has grown rapidly since the late 1970s and has continued to achieve significant growth in recent years due to a series of economic stimulus policies promulgated by the PRC government, including the RMB4 trillion economic stimulus package released in 2009. From 2008 to 2012, China's nominal GDP increased from RMB31,404.5 billion in 2008 to RMB51,932.2 billion in 2012, representing a CAGR of 13.4%. China's nominal GDP is expected to continue its steady growth in the coming years and to increase to RMB89,575.3 billion by 2017, representing an estimated CAGR of 11.5% from 2012 to 2017.

China Nominal GDP, 2008–2017E



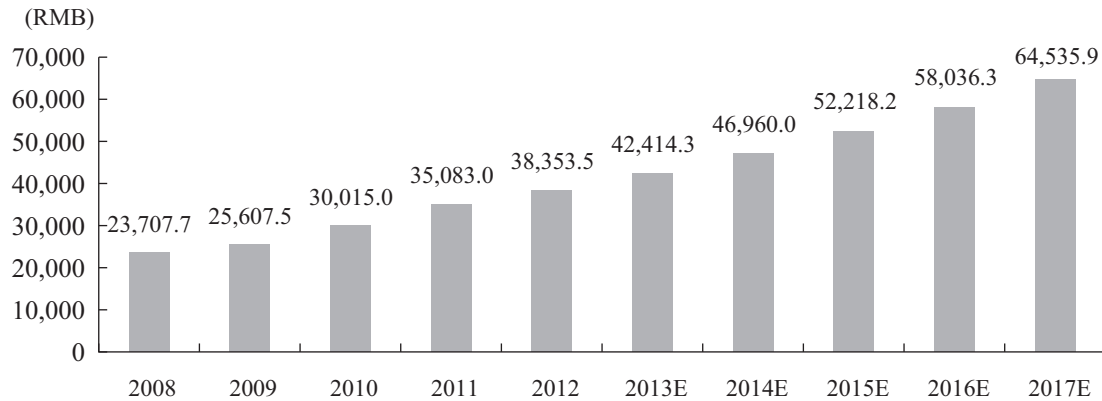
Source:

1. Historical data: National Bureau of Statistics of China (NBSC), 2012 Statistic Bulletin
2. Forecast data: International Monetary Fund (IMF), April 2013

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China's per capita nominal GDP also increased from RMB23,707.7 in 2008 to RMB38,353.5 in 2012, representing a CAGR of 12.8%. With favourable governmental policies and the global economic recovery underway, China's per capita nominal GDP is forecasted to grow at an estimated CAGR of 11.0% from 2012 to 2017, reaching RMB64,535.9 in 2017.

China Per Capita Nominal GDP, 2008–2017E



Source:

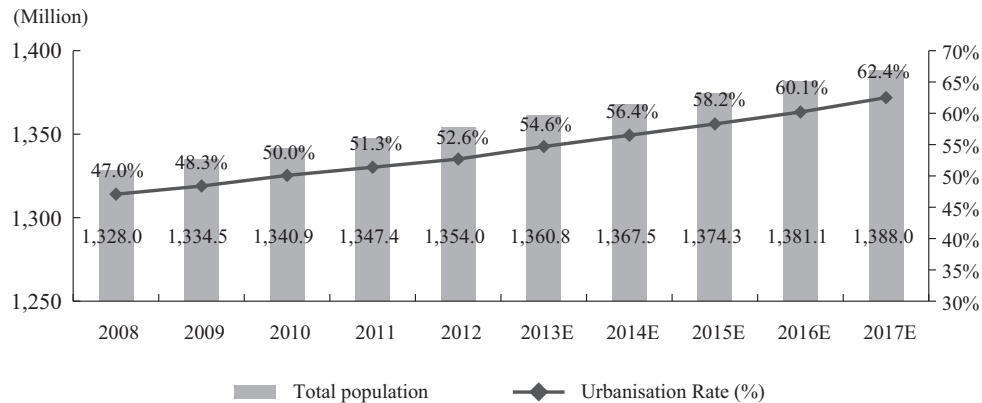
1. Historical data: NBSC, 2012 Statistic Bulletin
2. Forecast data: IMF, April 2013

China's Accelerating Urbanisation

Along with the economic development, China experienced the rapid urbanisation with its urban population increasing steadily as a result of an influx of migrants from rural area. China's urban population increased from 624.0 million in 2008 to 711.8 million in 2012, with the urbanisation rate increasing from 47.0% to 52.6% during the same period. With the continued development of urban facilities and influx of migrants to the urban areas, China's urban population is expected to reach 866.5 million in 2017, with an estimated urbanisation rate of 62.4%. This urbanisation trend, along with the large population base of China, is anticipated to create a large consumer market with significant size and purchasing power. Furthermore, the ongoing urbanisation in China has had an impact on the consumption patterns and habits of Chinese consumers. In particular, residents who have moved into urban areas from rural areas have been influenced by the consumption habits of the urban residents and have been increasingly willing to spend on discretionary items, such as fashion products, to express their social status and personal styles.

INDUSTRY OVERVIEW

China's Total Population and Urbanization Rate, 2008–2017E



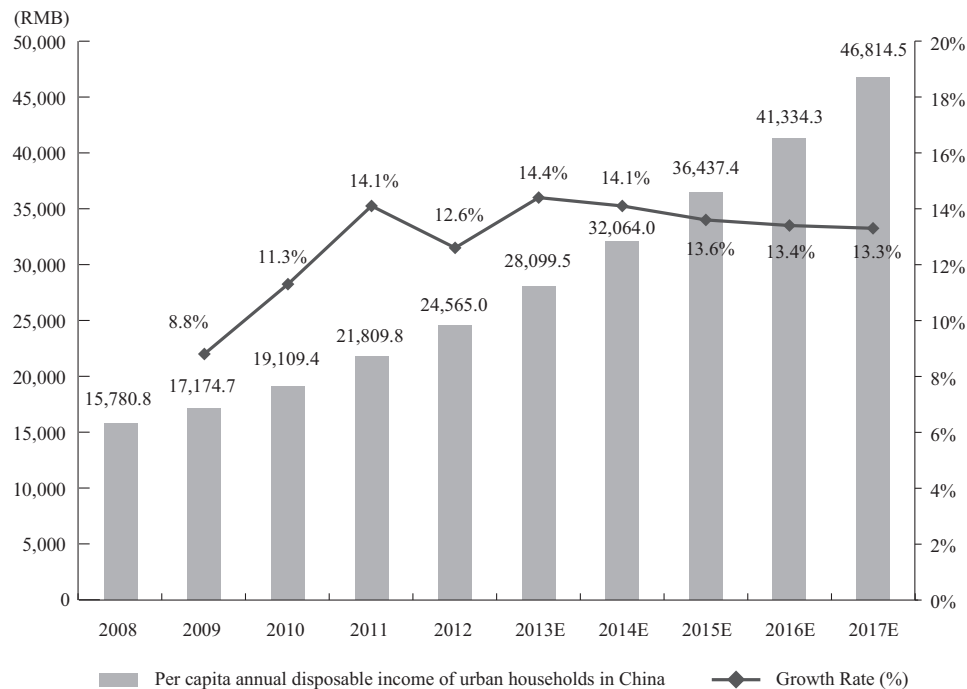
Source:

1. Historical population, urban population and urbanisation rate: NBSC, 2012 Statistics Yearbook of China
2. Forecast population of the PRC: IMF, World Economic Outlook Database, April 2013
3. Forecast urban population and urbanisation rate: Frost & Sullivan

Increasing Urban Household Disposable Income

As a result of China's rapid economic growth and urbanisation, the level of disposable income for urban residents in the PRC has increased rapidly. From 2008 to 2012, per capita urban household annual disposable income grew from RMB15,780.8 to RMB24,565.0, representing a CAGR of 11.7%. China's per capita urban household annual disposable income is estimated to reach RMB46,814.5 in 2017, representing an estimated CAGR of 13.8% from 2012 to 2017.

China Per Capita Urban Households Annual Disposable Income, 2008–2017E



Source:

1. Historical per capita annual disposable income of urban households: NBSC, 2012 Statistics Yearbook of China
2. Forecast per capita annual disposable income of urban households: Frost & Sullivan

INDUSTRY OVERVIEW

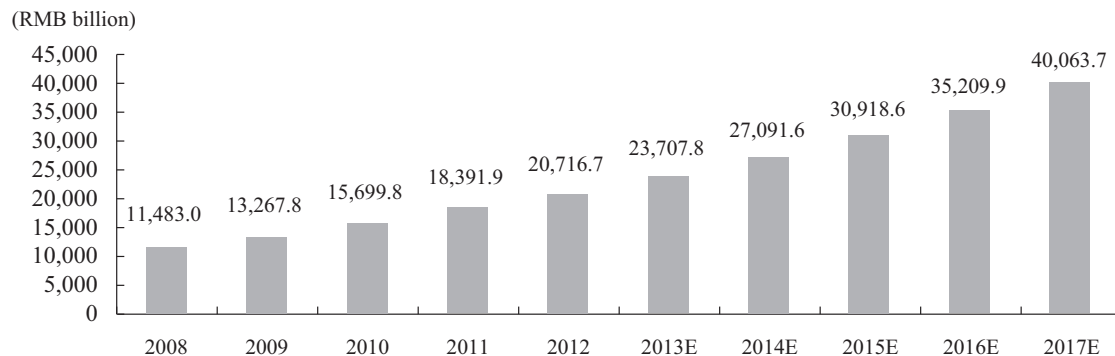
Disposable Income in Third- and Fourth-tier Cities

Third- and fourth-tier cities in the PRC have achieved the significant growth in recent years driven by the overall economic growth in the PRC and the PRC government's policy to develop urban areas of small size. As a result, income levels of third- and fourth-tier cities have increased, coupled with the improving living standards. These third- and fourth-tier cities demonstrate robust potentials in consumers' purchasing power, closing the gap with that of first- and second-tier cities. According to Frost & Sullivan, the average disposable household income of third- and fourth-tier cities reached RMB19,177.9 and RMB19,763.2 in 2011, respectively, in comparison to RMB35,019.0 and RMB22,603.2 for first- and second-tier cities, respectively.

Rapid Growth of PRC Retail Industry

The rapid urbanisation and growing disposable income in the PRC have contributed to the significant growth in demand for consumer products. The total retail sales of consumer goods in the PRC increased to RMB20,716.7 billion in 2012 from RMB11,483.0 billion in 2008, representing a CAGR of 15.9%. The total retail sales of consumer goods in the PRC is expected to continue to grow to reach RMB40,063.7 billion in 2017, representing an estimated CAGR of 14.1% from 2012 to 2017. Along with the increase in purchasing power, Chinese consumers have become more sensitive of the brand, quality, design and style of consumer goods.

Retail Sales of Consumer Goods, 2008–2017E



Source: NBSC, Frost & Sullivan

MENSWEAR MARKET IN THE PRC

Market Categories

The PRC menswear market, which primarily targets adult male consumers, includes formal wear, business casual wear, fashion casual wear and other menswear. Typical menswear products are suits, jackets and coats, shirts, T-shirts, sweaters, trousers and jeans and accessories (such as hats, belts, scarves and gloves).

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According to Frost & Sullivan, the PRC menswear market are divided into the following four sectors according to the general industry:

- Formal wear: designed for formal social events, such as weddings, formal dinners, or business meetings.
- Business casual wear: designed for business occasions and white-collar workplaces to dress professionally, but look relaxed and more causal than traditional formal wear.
- Fashion casual wear: designed for casual and non-formal occasions. This type of menswear usually integrates fashionable design with a brand-specific style to emphasise personal taste and status. According to Frost & Sullivan, we are categorised in the PRC fashion casual wear market.
- Other menswear: these include wholesale casual wear, outdoor clothing, denim wear and accessories.

Business Models of the PRC Menswear Market

According to Frost & Sullivan, most of the menswear brand owners in the PRC operate a wholesale business model. Under this model, the brand owners engage distributors and sell their products to distributors at a discount to retail prices usually in a single large order pre-season, who in turn sell the products to end-customers or resell them to sub-distributors at the retail points operated by the distributors and/or sub-distributors. Although the brand owners can achieve a fast expansion of sales network in the vast PRC market with lower capital expenditure by leveraging the distributors' knowledge and strength in local markets, the wholesale business model has some constraints, such as lack of control over the retail points in terms of retail operation and brand image, risk of excessive and obsolete inventory at the retail points and inability to swiftly respond to changing market demand, which may jeopardise the operation of these brand owners in the long run.

SPA Model

In contrast, certain international players have been operating a different business model. According to Frost & Sullivan, this model often known as Specialty Store Retailer of Private Label Apparel or SPA model in short. According to Frost & Sullivan, the three key characteristics of a SPA model consist of integration of all stages of the value chain (from design and production to sale to end-customers), accurate identification of and rapid response to customers' evolving preferences and demands, and strong control over retail points. Under such model, products and information flow smoothly along a vertically integrated value chain. Brand owners directly operate or maintain strong control over retail points with the help of management information systems. With the rapid response to market changes, brand owners seek to synchronize product supply with customers' evolving preferences and demands.

Leading fast fashion apparel retailers, such as GAP, H&M, Zara and Uniqlo, have achieved business success by adopting and developing this model. Though the PRC menswear market is still at its growth stage, according to Frost & Sullivan, some domestic brand owners, such as our Group, have been innovatively integrating the key elements of the SPA model in their business operation and we are one of the earliest companies in the PRC to adopt such model. Leveraging the SPA model as well as

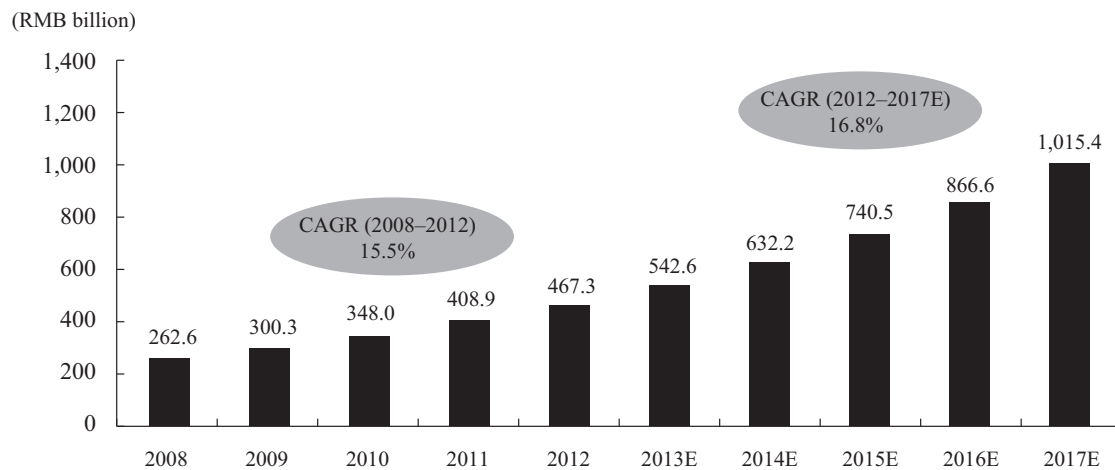
INDUSTRY OVERVIEW

their understanding of Chinese market, these domestic players are able to maintain an effective control over their retail points, integrate processes over the value chain and respond to the market demands in a timely manner.

Growth of the PRC Menswear Market

As a result of China's economic growth and the consumers' increasing purchasing power, the PRC menswear market has expanded rapidly, with its retail revenue increasing from RMB262.6 billion in 2008 to RMB467.3 billion in 2012, representing a CAGR of 15.5%. From 2012 to 2017, the PRC menswear market is expected to maintain strong growth and to reach RMB1,015.4 billion in 2017, representing an estimated CAGR of 16.8%.

Retail Revenue of China's Menswear Market*, 2008–2017E



Note: * Market size is estimated based on retail price.

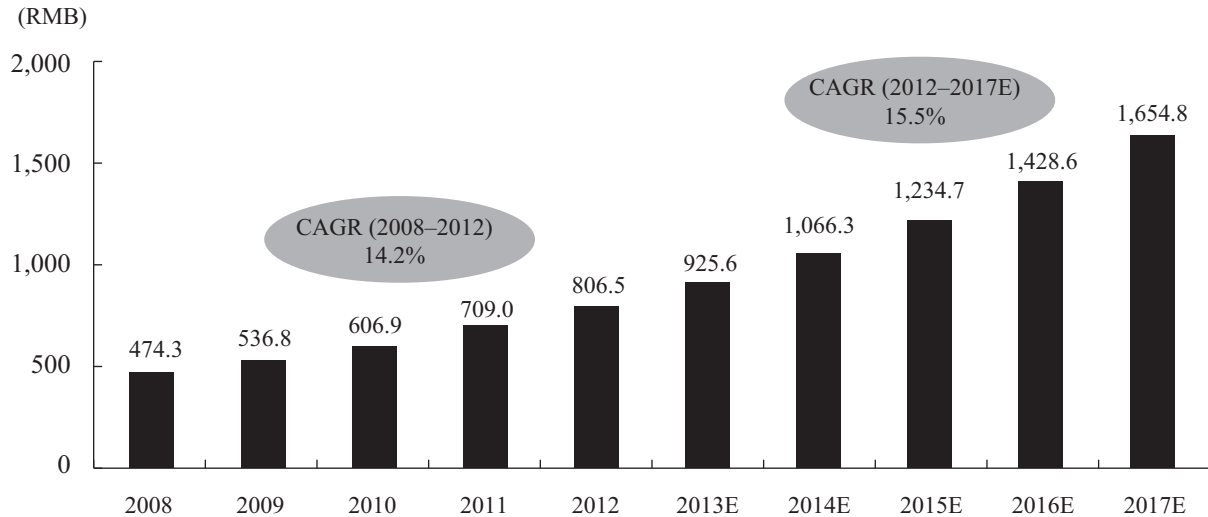
Source: Frost & Sullivan

Formal and business casual sectors have been the dominant sectors in the PRC menswear market with the market share of approximately 31.5% and 30.9% in 2012 respectively, due to the higher average selling price of products in each of these sectors as compared to that of products in other sectors and the dressing necessity in workplace. From 2012 to 2017, business casual sector is estimated to maintain rapid growth at a rate of approximately 20.8% as driven by the flexible dressing code policy adopted by many PRC enterprises and the consumer demand for different kinds of clothes under various circumstances, while the formal wear sector is expected to gradually lose its market share to other casual wear sectors. Furthermore, as consumers' demand for stylish dresses in various occasions has been increasing, the fashion casual sector grew from 2008 to 2012 and represented approximately 16.5% of the PRC menswear market in 2012. The sector is expected to increase its market share to approximately 17.1% in 2017 with entry of more brands to capitalise on opportunities driven by rising consumer needs.

Per capita consumption of menswear in the PRC increased to RMB806.5 in 2012 from RMB474.3 in 2008, representing a CAGR of 14.2%. Furthermore, China's per capita menswear consumption is expected to reach RMB1,654.8 in 2017, representing an estimated CAGR of 15.5% from 2012 to 2017.

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Per Capita Consumption of Menswear in China*, 2008–2017E



Note: * The figure refers to the per capita consumption on menswear of male aged over 15.

Source: Frost & Sullivan

MEN'S FASHION CASUAL WEAR MARKET IN THE PRC

Rapid Growth

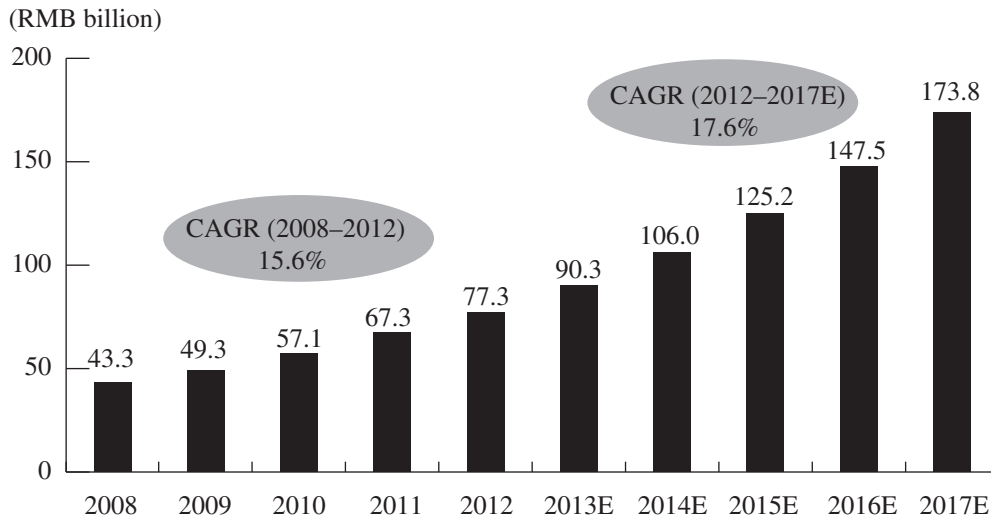
Men's fashion casual wear is menswear developed for casual and non-formal occasions, with brand-specific styles and designs that incorporate the latest fashion trends to emphasise personal expression. The men's fashion casual wear market in the PRC is primarily targeted to young generation of consumers in the middle class with a strong sense of fashion and considerable purchasing power. Consumers in this market tend to have strong brand loyalty to the distinctive styles of certain brands and are interested in pursuing newly emerging styles and innovative fashion concepts.

The PRC men's fashion casual wear market expanded rapidly from RMB43.3 billion in 2008 to RMB77.3 billion in 2012, representing a CAGR of 15.6%. The strong purchasing power from consumers and an increasing interest in the pursuit of fashion have been the main driving forces behind this growth. In 2012, the PRC men's fashion casual wear accounted for 16.5% of the total PRC menswear market in terms of retail revenue. Frost & Sullivan projects that the retail revenue of the men's fashion casual wear market in the PRC will reach RMB173.8 billion in 2017, representing an estimated CAGR of 17.6% from 2012 and 2017.

According to Frost and Sullivan, fashion casual brands in the PRC are expected to enhance their brand recognition and expand their sales networks in the third- and fourth-tier cities in the near future. Rapidly rising middle class in large population in the third- and fourth-tier cities is expected to become the largest consumer group of fashion casual wear in the PRC. Given lower housing and living costs in these cities, these consumers are willing to spend more on clothing and other discretionary items.

INDUSTRY OVERVIEW

Retail Revenue of the PRC Men's Fashion Casual Wear Market, 2008–2017E



Source: Frost & Sullivan

Targeted Consumers and Key Growth Drivers

Men's fashion casual brands in the PRC are targeted at male consumers between 20 to 45 years of age who have significant purchasing power, a rising fashion sense and increasing brand awareness. With easy access to the world's latest fashion trends through developed information channels such as television and the Internet, these consumers tend to focus more on design and style of the apparel products than prices.

There are three key growth drivers of the PRC men's fashion casual wear market, including (i) younger generation of consumers; (ii) stronger pursuit of fashion and personality; and (iii) emergence of more brands. As those born in the 1970s and 1980s have become the main consumers in the PRC, their strong purchasing power and increasing awareness of fashion trends and brands have driven the demand for more fashion products with distinct styles. With their increasing disposable incomes, these consumers are willing to spend more on fashionable clothing to express their personal tastes and social status. As the market grows, more fashion casual brands have been emerging, providing the consumers with a variety of styles and designs.

Distribution Channels

There are four major distribution channels for the PRC men's fashion casual wear market: stand-alone stores, department store concession counters, shopping mall stores and online retail shops. According to Frost & Sullivan, the retail sales of men's fashion casual wear products in stand-alone stores, department store concession counters and shopping mall stores in aggregate represented a vast majority of the total retail sales of such products in the PRC in 2012.

Stand-alone stores have been a major distribution channel in the men's fashion casual wear market in the PRC. As the largest revenue contributor to the market, the revenue from the channel accounted for approximately 44.2% of the market in 2012, according to Frost & Sullivan. This channel drives the

INDUSTRY OVERVIEW

growth in the market because of its direct access to large populations of consumers and the strong effect on brand promotion and marketing. Stand-alone stores are usually retail stores located on the city's main shopping streets. They are widely established in Chinese cities of different sizes, in particular, smaller third- and fourth-tier cities where commercial real estates such as department stores and shopping malls are less developed. Compared to other distribution channels, stand-alone stores typically have larger floor areas, offer the brand owners with a higher degree of flexibility over the location selection, layout design and decoration.

Department store concession counters have long been one of the major distribution channels for apparel products in the PRC with the revenue from the channel accounted for approximately 36.5% of the PRC men's fashion casual wear market. Although stand-alone stores have become the prevalent shopping venue in third- and fourth-tier cities, department store concession counters remain the major distribution channel that help define the consumers' perception of the positioning and image of apparel brands.

Along with the rapid development of commercial properties in the PRC, shopping mall stores are becoming an increasingly popular distribution channel for fashion apparel products. The channel is still in an early stage of development with the revenue from the channel accounted for only 10.1% of the PRC men's fashion casual wear market. Shopping mall stores provide the consumers with comfortable shopping environment, diversified merchandises, a range of services and convenient transportation.

Online retail shops have been growing rapidly with the popularisation of the Internet and electronic commerce platforms with the revenue from the channel accounted for approximately 6.5% of the PRC men's fashion casual wear market. According to Frost & Sullivan, consumers in third- and fourth-tier cities, who have relatively less purchasing power and are more price-sensitive, show a strong preference to online shopping for apparel products due to the price discount offered.

Key Entry Barriers

Key entry barriers in the PRC men's fashion casual wear market primarily include, among others, proper market positioning, consumer's recognition of brand and style and design capability.

As more brands are emerging in the PRC men's fashion casual wear market, new market entrants need to identify and establish proper market positioning by using distinctive brand images and competitive product offering, taking into account a series of factors (such as the specific targeted consumer subgroups, product style and patterns as well as the location and decoration of retail points) so as to differentiate themselves from competitors.

New market entrants also need to gain consumers' recognition of their distinctive brands and styles in order to be successful in the PRC men's fashion casual wear market. China's young male generation, the targeted consumers of men's fashion casual wear, have developed their own understanding of fashion. They are generally more loyal to, and are willing to pay more for, their preferred brands and styles. Accordingly, new market entrants need to establish the targeted consumers' recognition of the brands and styles so as to attract and retain new consumers.

Design capability is an important barrier to entry for new market entrants, as new entrants need to have the ability to create distinctive styles that appeal to targeted consumers, closely track the constantly changing fashion trends and consistently maintain their design styles.

Market Constraints

Although the PRC men's fashion casual wear market experienced rapid growth, all players in the market face a number of constraints and challenges to their future growth, which include high inventory level, inefficient responding mechanisms to changing market demand, product homogeneity and low design capability.

High inventory level is the primary market constraint faced by existing players in the PRC men's fashion casual wear market. Since the end of 2011, many brand owners and distributors in the market have experienced an increase in inventory levels due to lower-than-expected demand from consumers and over-expansion of their retail networks. In order to reduce inventory and improve cash flow, some brand owners choose to boost their product sales through higher retail discounts, which may have a long-term negative impact on their brand images and reputation.

The brand owners in the PRC men's fashion casual wear market, especially those with a wholesale business model, need to enhance their ability to respond to market demands in a timely manner. Most domestic players adopt a wholesale business model, and produce and deliver the majority of their products for a particular season, months before the season starts. Without analysis on the rapidly changing fashion trend and customer needs before a season so as to timely adjust the product design and manufacturing plan during the season, this practice results in a high risk of excessive and obsolete inventory.

The players in the PRC men's fashion casual wear market also face the challenge of product homogeneity. As the PRC menswear market expands, more international brands are entering the market with their distinctive brands and designs as well as core technologies. Many domestic brands are struggling to establish distinctive brand positioning and offer differentiated products to distinguish themselves from the international brands and their peer domestic competitors.

The players in the PRC men's fashion casual wear market also need to enhance their design capabilities, as the targeted consumers with a rising sense of fashion are becoming more demanding on the product design. Many PRC domestic fashion casual brands lack the talents and strong capabilities to develop distinctive designs and patterns and fail to maintain brand loyalty from consumers.

INDUSTRY OVERVIEW

COMPETITIVE LANDSCAPE OF THE PRC MEN'S FASHION CASUAL WEAR MARKET

The following is a list of the top ten players in the PRC men's fashion casual wear market in terms of retail revenue in 2012:

Ranking	Brand	Retail revenue in 2012 (RMB billion)	Market share
1	Jack & Jones	5.5	7.1%
2	Zuoan	2.5	3.3%
3	Cabbeen	2.1	2.7%
4	GXG	1.9	2.5%
5	Mark Fairwhale	1.9	2.4%
6	Peacebird	1.8	2.4%
7	Selected	1.1	1.5%
8	N&Q	0.9	1.1%
9	Tony Wear	0.8	1.1%
10	Croquis (速寫)	0.3	0.5%
Top ten subtotal		18.8	24.6%
Total retail revenue in the PRC men's fashion casual wear market		<u>77.3</u>	<u>100%</u>

In 2012, the PRC men's fashion casual wear sector represented the 16.5% market share in terms of retail revenue in the entire menswear market in the PRC, with the top ten market players and us accounting for the 4.0% and 0.2% market share, respectively. According to Frost & Sullivan, the PRC men's fashion casual wear market is in its mid-growth stage and getting increasingly competitive. It is highly fragmented with the top ten market players accounting for 24.6% market share in terms of retail revenue in 2012.

We were ranked as the eighth largest brand in terms of annual retail revenue in the PRC men's fashion casual wear market in 2012, according to Frost & Sullivan. We face competition from both international and domestic brands of men's fashion casual menswear. Nevertheless, we believe our unique business model, widely expanded sales network, attractive customer membership programme and strong retail point management allow us to differentiate ourselves from our competitors and continue to compete effectively in the market. According to Frost & Sullivan, only a few top brands (including Cabbeen, GXG, Mark Fairwhale, Peacebird and us) in the PRC men's fashion casual wear market each has successfully established a substantial member base. After considering factors such as marketing positioning, major types of products, targeted consumers, and store locations of other players in the market, we believe that our comparable competitors are mainly Zuoan, Cabbeen and GXG. All of them are among the top ten men's fashion casual wear brands in the PRC with their profiles set out below. According to Frost & Sullivan, the domestic brand owners will continue to compete on brand image, design capability, market positioning, sales network, retail point management as well as customer loyalty in the PRC men's fashion casual wear market.

INDUSTRY OVERVIEW

Zuoan

Zuoan is a local men's fashion casual wear brand established in 2002 in Fujian province, China. It offers men's fashion casual apparel primarily targeting male consumers between the age of 20 and 40 in urban cities. The retail revenue of Zuoan in 2012 amounted to approximately RMB2.5 billion, which ranked second in the PRC men's fashion casual wear market. As at 31 December 2012, Zuoan had about 1,329 stores covering a total of 30 provinces and municipalities in the PRC, of which approximately 1,322 stores are operated through 16 distributors and 325 sub-distributors and seven stores are operated under its direct control.

Cabbeen

Cabbeen, a local men's fashion casual wear brand originated from Hong Kong, first entered into the PRC in 1997. It primarily targets male consumers aged between 22 and 35 in urban cities. Cabbeen recorded the retail revenue of approximately RMB2.1 billion in 2012, which ranked third in the PRC men's fashion casual wear market. As at 31 December 2012, Cabbeen had over 950 distributor-operated stores covering over 300 cities in 30 provinces and municipalities in the PRC.

GXG

GXG was introduced in the PRC in 2006 with its manufacturing plant established in Ningbo, Zhejiang province. Its products are designed in different combinations of black, white and grey colours targeting urban male consumers aged between 25 and 35 in the PRC. The retail revenue of GXG in 2012 amounted to approximately RMB1.9 billion, which ranked fourth in the PRC men's fashion casual wear market. As at 31 December 2012, GXG had over 1,000 sales terminals, among which over 40% of were located in Shanghai, Zhejiang province and Jiangsu province and over 70% were located in eastern coastal region of the PRC.

Key Advantages of the Group over its Competitors

According to Frost & Sullivan, as compared to our competitors, our Group enjoys three key advantages from our unique business model, including our ability to respond quickly to constantly changing consumer demand, our strong control over retail points and the vertical integration of the supply chain and retail points.

Our Group has adopted a market-driven fast fashion business model, which enables us to collect information on consumer behaviour through our membership database and based on customer information, to adjust our product design and development. As such, we are able to better understand the latest market needs and respond to changing consumer demand by quickly developing new fashionable products. Our procurement model allows our retail points to order products in smaller batches with a high degree of flexibility throughout the season, which helps ensure that our products track the real customer demand.

In contrast, most of our competitors sell most of their products to distributors in one batch before certain season starts. They may not have systems in place to collect consumer behaviour information and analyse the latest fashion trend based on collected information. As a result, they may not be able to respond to the customer demand in a timely manner, which often leads to high inventory levels.

INDUSTRY OVERVIEW

With the help of our management information system, our Group integrates the management of supply chain and retail points. The system enables us to access operational data at our self-operated and franchised retail points. It also allows us to monitor the product procurement and delivery on a real time basis. Hence, we are able to make quick and informed decision in every aspect and process of our management of supply chain and retail points.

In contrast, competitors that have adopted a wholesale business model typically outsource product manufacture to OEM suppliers and retail sales to distributors, which may lead to limited sharing of information and lack of effective communication among the parties along the supply chain. Some brands with multiple tiers of distributors also have higher price markups, which reduces their competitiveness in pricing.

Our Group has strong control over both our self-operated and franchised retail points by selecting, recruiting and appointing all store managers and implementing a set of standard management practice for our retail points. This enables us to provide our consumers with consistent and better shopping experience. In contrast, some competitors who rely solely on their distributors to expand and operate the retail points may not have sufficient and effective control over their retail points, resulting in unsatisfactory consumer service, inconsistent brand image and unapproved price discount.

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This section summarises the principal PRC laws and regulations that are relevant to our business and operations. As this is a summary, it does not contain a detailed analysis of the PRC laws that are relevant to our business and operations.

THE PRC LEGAL SYSTEM

The PRC legal system is based on the PRC Constitution and is made up of written laws, regulations, directives and local laws, laws of Special Administrative Regions and laws resulting from international treaties entered into by the PRC government. Court verdicts do not constitute binding precedents, but are used for purposes of judicial reference and guidance. The National People's Congress of the PRC (the "NPC") and the Standing Committee of the NPC are empowered by the PRC Constitution to exercise the legislative power of the State. The NPC has the power to amend the PRC Constitution and enact and amend basic laws governing State agencies and civil and criminal matters. The Standing Committee of the NPC has the power to enact and amend all laws except for the laws that are required to be enacted and amended by the NPC.

The State Council is the highest organ of the State administration and has the power to enact administrative rules and regulations. The ministries and commissions under the State Council are also vested with the power to issue orders, directives and regulations within the jurisdiction of their respective departments. All administrative rules, regulations, directives and orders promulgated by the State Council and its ministries and commissions must be consistent with the PRC Constitution and the national laws enacted by the NPC. In the event that a conflict arises, the Standing Committee of the NPC has the power to annul administrative rules, regulations, directives and orders.

At the regional level, the provincial and municipal congresses and their respective standing committees may enact local rules and regulations and the people's governments may promulgate administrative rules and directives applicable to their own administrative areas. These local rules and regulations must be consistent with the PRC Constitution, the national laws and the administrative rules and regulations promulgated by the State Council.

The State Council and the provincial and municipal governments may also enact or issue rules, regulations or directives in new areas of the law for experimental purposes or in order to enforce the law. After gaining sufficient experience with experimental measures, the State Council may submit legislative proposals to be considered by the NPC or the Standing Committee of the NPC for enactment at the national level.

The PRC Constitution holds the power to interpret laws in the Standing Committee of the NPC. The Supreme People's Court, in addition to its power to give general interpretation on the application of laws in judicial proceedings, also has the power to interpret specific cases. The State Council and its ministries and commissions are also vested with the power to interpret rules and regulations that they have promulgated. At the regional level, the power to interpret regional rules and regulations is vested in the regional legislative and administrative bodies that promulgate such laws.

REGULATIONS

THE PRC JUDICIAL SYSTEM

Under the PRC Constitution and the Law of Organisation of the People's Courts, the judicial system is made up of the Supreme People's Court, local courts, military courts and other special courts. The local courts are comprised of the basic courts, the intermediate courts and the higher courts.

The basic courts are organised into civil, criminal, economic, administrative and other divisions. The intermediate courts are organised into divisions similar to those of the basic courts, and are further organised into other special divisions, such as the intellectual property division. The higher level court supervises the basic and intermediate courts. The people's procuratorates also have the right to exercise legal supervision over the civil proceedings of courts of the same level and lower levels. The Supreme People's Court is the highest judicial body in the PRC. It supervises the administration of justice by all other courts.

The courts employ a two-tier appellate system. A party may appeal against a judgement or order of a local court to the court at the next highest level. Second judgements or orders given at the next highest level and the first judgements or orders given by the Supreme People's Court are final. If, however, the Supreme People's Court or a court at a higher level finds an error in a judgement that has been given in any court at a lower level, or the presiding judge of a court finds an error in a judgement which has been given in the court over which he presides, the case may then be retried according to the judicial supervision procedures.

The Civil Procedure Law of the PRC, which was adopted on 9 April 1991 and amended on 28 October 2007 and 31 August 2012, respectively, sets forth the criteria for instituting a civil action, the jurisdiction of the courts, the procedures to be followed for conducting a civil action and the procedures for enforcement of a civil judgement or order. All parties to a civil action conducted within the PRC must comply with the Civil Procedure Law. Generally, a civil case is initially heard by a local court of the municipality or province in which the defendant resides. The parties to a contract may, by express agreement, select a jurisdiction where civil actions may be brought, provided that the jurisdiction is either the plaintiff's or the defendant's place of residence or the place of execution or implementation of the contract or the object of the action. However, such selection cannot violate the stipulations of grade jurisdiction and exclusive jurisdiction in any case.

A foreign individual or enterprise generally has the same litigation rights and obligations as a citizen or legal person of the PRC. If a foreign country's judicial system limits the litigation rights of PRC citizens and enterprises, the PRC courts may apply the same limitations to the citizens and enterprises of that foreign country within the PRC. If any party to a civil action refuses to comply with a judgement or order made by a court or an award granted by an arbitration panel in the PRC, the aggrieved party may apply to the court to request enforcement of the judgement, order or award. The time limit imposed on the right to apply for such enforcement is two years. If a person fails to satisfy a judgement made by the court within the stipulated time, the court will, upon application by the opposing party, mandatorily enforce the judgement.

A party seeking to enforce a judgement or order of a court against a party who is not located within the PRC and does not own any property in the PRC may apply to a foreign court with proper jurisdiction for recognition and enforcement of the judgement or order. A foreign judgement or ruling may also be recognised and enforced by the court according to PRC enforcement procedures if the PRC has entered into, or acceded to, an international treaty with the relevant foreign country that provides for

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such recognition and enforcement, or if the judgement or ruling satisfies the court's examination based on the principals of reciprocity. However, a foreign judgement or ruling may not be recognised and enforced if the court finds that the recognition or enforcement of such judgement or ruling will result in a violation of the basic legal principles of the PRC, its sovereignty or security, or would be contrary to social and public interests.

LAW AND REGULATIONS RELATING TO STOCK FLOATATION AND LISTING ABROAD

Approval of China Securities Regulatory Commission

Pursuant to the Special Provisions of the State Council on Stock Floatation and Listing Abroad by Limited Stock Companies (國務院關於股份有限公司境外募集股份及上市的特別規定) promulgated by the State Council of the PRC on 4 August 1994, in order to issue their stocks to given or non-given investors and list them abroad, joint stock limited companies should obtain the approval of the Securities Committee of the State Council (revoked by the State Council in 1998 with its responsibilities taken over by the CSRC).

Pursuant to Guidelines for Supervising the Application Documents and Examination Procedures for Overseas Stock Issuance and Listing by Joint Stock Companies (關於股份有限公司境外發行股票和上市申報文件及審核程序的監管指引) promulgated on 20 December 2012 and with effect from 1 January 2013 by the CSRC, in order to better adapt to the financing needs of domestic enterprises especially small and medium enterprises, serve the development of the real economy, CSRC will further ease requirements for overseas issuance and listing by domestic enterprises, simplify examination procedures, and improve regulatory efficiency. A company applying for overseas stock issuance and listing shall submit the application and required documents to CSRC. The company may upon receipt of the acceptance notice submit to overseas securities regulatory authority or stock exchange a preliminary application for stock issuance and listing and may upon receipt of the approval document for administrative licencing from CSRC submit to overseas securities regulatory authority or stock exchange a formal application for stock issuance and listing. The company shall, within 15 working days from the day of completion of overseas stock issuance and listing, submit a written report to CSRC stating relevant information concerning overseas stock issuance and listing. The approval documents of CSRC concerning overseas stock issuance and listing by the company shall be effective for a period of 12 months.

Registration Certificate of Overseas Listing

Pursuant to Circular of the State Administration of Foreign Exchange on Issues Concerning Foreign Exchange Control for Overseas Listing (國家外匯管理局關於境外上市外匯管理有關問題的通知) promulgated with effect on 28 January 2013, a domestic company shall, within 15 working days upon initial offerings of overseas listing, go through relevant registration formalities by presenting the required materials to the forex bureau at the place of registration. Upon verification of all required materials presented, the forex bureau shall issue a registration certificate of overseas listing to the domestic company. Based on its registration certificate of overseas listing, the domestic company shall open respective special domestic account for the initial offerings (or additional offerings) and buy-back business at the bank where it is located so as to handle corresponding funds remittance and transfer.

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Where any domestic shareholder of a domestic company intends to increase or reduce overseas holdings upon overseas listing, he/she shall go through relevant registration formalities by presenting the required materials to the forex bureau at his/her place. Upon verification of all the required materials, the forex bureau shall issue a registration certificate of overseas holdings to the domestic shareholder. Based on his/her registration certificate of overseas holdings, a domestic shareholder of a domestic company shall open respective special domestic account for increasing (or reducing) overseas holdings business at the bank where his/her domicile is located so as to handle corresponding funds remittance and transfer.

Essential Clauses in the Articles of Association

Pursuant to Circular of the Securities Commission of the State Council and the State Commission for Restructuring Economy on Implementing Essential Clauses in Articles of Association of Companies Listed Overseas (國務院證券委員會、國家經濟體制改革委員會關於執行《到境外上市公司章程必備條款》的通知) (the “Essential Clauses”) promulgated on 27 August 1994, and the Reply of the Overseas Listing Department of CSRC and the Production System Department of the State Commission for Restructuring the Economic System on Opinions Concerning the Supplement and Amendment to Articles of Association by Companies to Be Listed in Hong Kong (中國證監會海外上市部、國家體改委生產體制司關於到香港上市公司對公司章程作補充修改的意見的函) (the “Supplement and Amendment”) promulgated on 3 April 1995 both by the CSRC and the State Commission for Restructuring the Economic System, joint stock limited companies which seek to list shares overseas shall record clearly the content required by the Essential Clauses and Supplement and Amendment in their Articles of Association and shall not modify or delete the content without authorisation.

Foreign Capital Stock and Domestic Capital Stocks

Pursuant to the Special Provisions of the State Council on Stock Floatation and Listing Abroad by Limited Stock Companies (國務院關於股份有限公司境外募集股份及上市的特別規定) promulgated by the State Council of the PRC on 4 August 1994, stocks issued and listed abroad (the “foreign capital stock”) by limited stock companies shall be in the form of inscribed stocks, with the per value indicated in Renminbi and subscribed to in foreign currencies. Foreign capital stock may be in the form of stock deposit receipts or other derivations. Stocks issued to domestic investors (the “domestic capital stocks”) by a joint stock limited company that has issued and listed its stocks abroad shall be in the form of inscribed stocks. The board of directors may make separate arrangements for the plan of issuing and listing foreign capital stocks and domestic capital stocks approved by the Securities Committee of the State Council.

LAW AND REGULATIONS RELATING TO THE INDUSTRY

Commercial Franchising

Pursuant to the Administrative Regulations on Commercial Franchising (商業特許經營管理條例) promulgated on 6 February 2007 and with effect from 1 May 2007 by the State Council the PRC, commercial franchising refers to the business activities where an enterprise that possesses the registered trademarks, enterprise logos, patents, proprietary technology or any other business resources (the “franchisor”) allows such business resources to be used by another business operator (the “franchisee”) through contract and the franchisee follows the uniform business model to conducts business operation and pays franchising fees according to the contract.

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Within 15 days of their first franchising contract signing, franchisors shall carry out record-filing with the competent commerce authority pursuant to the stipulations of these Regulations. Where the franchising activities are within the jurisdiction of province, autonomous region and municipality directly under the Central Government, franchisors shall carry out the record-filing with the competent commerce departments of the people's governments of the various provinces, autonomous regions, municipalities directly under the Central Government in their locality. Inter-provincial (regional, municipal) franchising activities shall be filed with the competent commerce department of the State Council.

Pursuant to Administrative Measures for the Record Filing of Commercial Franchises (商業特許經營備案管理辦法) (the "Measures for the Record Filing") promulgated on 12 December 2011 and with effect from 1 February 2012 by the MOFCOM, the MOFCOM may, according to the relevant provisions, entrust the competent commerce department of the people's government of the relevant province, autonomous region and municipality directly under the Central Government to complete the filings of commercial franchises conducted between two or more provinces, autonomous regions or municipalities directly under the Central Government. The entrusted competent commerce department of the people's government of the province, autonomous region or municipality directly under the Central Government shall complete the filing work on its own and shall not entrust any other organisation or individual to handle the filing work. A franchisor shall, before 31 March in each year, report to the filing authority the conclusion, cancellation, termination and renewal of the franchise contract in the previous year. If a franchisor fails to make the filing in accordance with the Measures for the Record Filing, the competent commerce department shall order it to make the filing within a specified time limit and impose a fine of more than RMB10,000 and less than RMB50,000; if it fails to make the filing within the specified time limit, the competent commerce department shall impose a fine of more than RMB50,000 and less than RMB100,000 and make an announcement.

Pursuant to Measures for the Administration of Information Disclosure of Commercial Franchises (商業特許經營信息披露管理辦法) promulgated on 23 February 2012 and with effect from 1 April 2012 by the MOFCOM, the franchiser shall disclose the following information in writing to the franchisee within 30 days prior to the day on which the franchise contract is executed, except for the circumstances in which the franchiser and the franchisee have renewed the franchise contract under the same terms of the original franchise contract:

- (i) basic information on the franchiser and franchise activities;
- (ii) basic information on the business resources of the franchiser including intellectual property;
- (iii) basic information on the franchise charges;
- (iv) information on prices and conditions of the products, services and equipment provided to the franchisee;
- (v) information on providing continuous services to the franchisee;
- (vi) the methods and content of guidance and supervision over the franchise activities of the franchisee;
- (vii) information on the franchise network investment budget;

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- (viii) information on the franchisee within the territory of China;
- (ix) abstracts of the franchiser's financial and accounting reports and of the audit reports as audited by accounting firms or auditing firms in the last two years;
- (x) information on any major litigation and arbitration concerning franchises of the franchiser in the latest five years, including cause of action, litigation (or arbitration) claim, jurisdiction and result;
- (xi) information on any record of major illegal operation involving the franchiser and its legal representative;
- (xii) text of Franchise Contract.

Foreign Investment in Commercial Fields

Pursuant to the Measures of Administrations of Foreign Investment in Commercial Fields (外商投資商業領域管理辦法) (the "Commercial Enterprises Measures") promulgated on 16 April 2004 and with effect from 1 June 2004 by the MOFCOM, foreign investors can apply to establish commercial enterprises and open retail stores at the same. Foreign-invested commercial enterprises can undertake the following business activities:

- (i) commission agency: agents, brokers, auctioneers or other wholesalers of goods who sell goods owned by others and provide relevant attachment services through the collection of fees on the basis of contract;
- (ii) wholesale: the selling of goods to retailers, customers of industry, commerce and organisations, or to other wholesalers or providing relevant auxiliary services;
- (iii) retail: the selling of goods for consumption and use by individuals or groups or providing relevant attachment services in fixed places or through television, telephone, mail order, internet, and automats;
- (iv) franchising: vesting other people with the right of use of a given trademark, trade firm or mode of management through the signing of a contract in order to collect remunerations or franchising fees.

According to the Commercial Enterprises Measures, a foreign-invested commercial enterprise must meet the following conditions:

- (i) a minimum registered capital of RMB30,000 for a limited liability company or RMB100,000 for a one-person limited liability company in compliance with the requirements of PRC Company Law;
- (ii) compliance with the standard total investment and registered capital requirements for foreign invested enterprises; and
- (iii) in general, a term of operation not exceeding 30 years, or 40 years in the mid-western region of the PRC.

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The procedures for establishing a foreign-invested commercial enterprise involve the submission of an application, including a project proposal, feasibility study and other required documents, to the relevant provincial commerce department or the MOFCOM for approval. Pursuant to the Notice of the Ministry of Commerce on Transferring Approval Rights of Foreign-invested Commercial Enterprises (商務部關於下放外商投資商業企業審批事項的通知) issued by the MOFCOM on 12 September 2008, the provincial commerce department shall be the approval authority of the establishment and modification of foreign-invested commercial enterprises, except for those that engage in sales by television, telephone, mail order, internet, or vending machine, those that engage in the wholesale of audiovisual products and those that engage in the sale of books, newspapers and magazines.

Pursuant to the Notice of Fujian Provincial Department of Foreign Trade and Economic Development on Transferring Approval Rights of Encouraged Foreign-invested and Commercial Wholesale Enterprises (福建省對外貿易經濟合作廳關於下放外商投資鼓勵類及商業批發企業審批事項的通知) promulgated by Fujian Provincial Department of Foreign Trade and Economic Development on 29 December 2008, the Bureau of Foreign Trade of Economic Cooperation of city divided into districts (the “Bureau of City”) shall be the approval authority of the establishment and modification of encouraged foreign-invested commercial enterprises with a total investment capital below USD100 million, and filing record shall be presented to Provincial Department of Foreign Trade and Economic Development. The Bureau of City is also the approval authority of the establishment of foreign-invested enterprises with a total investment capital below USD100 million which is engaged in the wholesale of encouraged or appropriate commodities, addition of the aforesaid wholesale business scope to established foreign-invested enterprises, and the reinvestment of foreign-invested enterprises to establish the aforesaid wholesale enterprises, except for the following approval:

- (i) wholesale of restricted commodities;
- (ii) those that engage in sales by television, telephone, mail order, internet, or vending machine;
- (iii) retail, merger and acquisition to establish commercial enterprises, reinvestment of foreign-invested enterprises to establish restricted commercial enterprises.

Product Sale through the Internet

Pursuant to the Administrative Measures for Internet Information Services (互聯網信息服務管理辦法) which was promulgated and took effect on 25 September 2000 by the State Council, internet information services comprise commercial service and non-commercial services. The term of commercial internet information service refers to service activities such as provision for value to online subscribers through the internet of information or website production, etc. The term of non-commercial internet information service refers to the provision without compensation to online subscribers through the internet of information that is public and openly accessible. In order to engage in the provision of commercial internet information services, the applicant shall apply to the telecommunications administration authority of the province, autonomous region or municipality directly under the central government or the State Council’s department (the “provincial telecommunications administration authority”) for an Internet Information Services Value-added Telecommunications Service Operating Permit (the “Operating Permit”). In order to engage in the provision of non-commercial internet information services, the applicant shall carry out record-filing procedure with the provincial telecommunications administration authority. The one engaging in the provision of non-commercial internet information services without having completed the record-filing procedures, or providing

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services beyond the scope of the services placed in the record, the provincial telecommunications administration authority shall order rectification within a limited period of time. If the violator refuses to rectify the violation, the provincial telecommunications administration authority shall order the website to be shut down.

The Measures for the Archival Administration of Non-Commercial Internet Information Services (非經營性互聯網信息服務備案管理辦法) which was promulgated on 8 February 2005 and took effect from 20 March 2005 by the Ministry of Information Technology (the predecessor of the Ministry of Industry and Information Technology) formulates more detailed procedural requirements of record-filing for non-commercial internet information services providers.

Pursuant to the Circular of the General Office of the Ministry of Commerce on Some Issues Concerning the Approval and Administration of Foreign Investment Projects of Sale through Internet and Automat (商務部辦公廳關於外商投資互聯網、自動售貨機方式銷售項目審批管理有關問題的通知) which was promulgated by the MOFCOM and took effect on 19 August 2010, foreign invested commercial enterprises is allowed to directly engage in internet sales business subject to requisite approvals and registrations in accordance with the laws. The application for the establishment of a foreign invested enterprises specialising in internet sale shall be submitted to the competent provincial commerce departments for approval, the competent provincial commerce departments shall conduct strict examination and approval in accordance with the Commercial Enterprises Measures and other relevant laws and regulations. Where a foreign invested enterprise provides network services for other dealing parties by taking advantage of its own network platform, it shall apply to the Ministry of Industry and Information Technology for value-added telecommunications business licence; where a foreign invested enterprise directly engages in commodity sale by using its own network platform, it shall file with the competent telecommunication administrative department.

Pursuant to Guiding Opinions of the Ministry of Commerce on Online Trading (for Tentative Implementation) (商務部關於網上交易的指導意見[暫行]), which was promulgated by the MOFCOM and took effect on March 6, 2007, the online trading service provider, which comprises online trading platform service provider and auxiliary online trading service providers, shall go through approval and registration formalities if required. The term of online trading platform service provider refers to the one who operates online trading platforms and provide the buyers and sellers with trading services. The term of auxiliary online trading service providers refers to the one who provides the buyers and the sellers with auxiliary services such as identity certification, credit evaluation, network advertisement publishing, network marketing, online payment, logistics distribution, trading insurance, etc. in order to optimise the online trading environment and to promote the online trading.

To summarise the approval or record-filing formalities in relation to online sale under the PRC laws and regulations, in the event that a person or an enterprise sell commodities or services by using its own online trading platform, it shall file with the competent telecommunication administrative department; in the event that a person or an enterprise sells commodities or services by using the online trading platform provided by others, it does not need to apply for the Value-added Operating Permit or conduct record-filing with the competent telecommunication administrative department, meanwhile the online trading platform provider shall apply for and hold the Value-added Operating Permit to operate the online trading platform.

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LAWS AND REGULATIONS RELATING TO PERSONAL INFORMATION PROTECTION

Pursuant to the Tort Law of the PRC (中華人民共和國侵權責任法) which was promulgated on 26 December 2009 and took effect from 1 July 2010 by the Standing Committee of the NPC, anyone who infringes on other persons' rights associated with his/her name or privacy should undertake tortious liabilities.

The Tentative Measures for Administration of Online Commodity Trades and Related Services (網絡商品交易及有關服務行為管理暫行辦法), which was promulgated on 31 May 2010 and took effect from 1 July 2010 by State Administration for Industry and Commerce, applies to online commodity providers and online service providers in respect of online commodity trades and relevant services within the PRC. Pursuant to the tentative measures, online commodity providers and online service providers are obliged to keep safe, rationally use, hold for a limited time period and properly destroy consumers' information they have collected; and shall not collect information irrelevant to the provision of commodities and services, shall not misuse the information, or publicise, lease or sell the information, unless otherwise provided for by laws and regulations. Warning shall be given to violations of infringing on consumers' private information, and violators shall be ordered to make corrections within the limited time period, and to pay a fine of less than RMB10,000 if the violators fail to make corrections within the limited time period.

The Guidelines for Personal Information Protection in Information Safety Technology Public and Commercial Service Information System (信息安全技術公共及商用服務信息系統個人信息保護指南), which became effective on 1 February 2013, applies to any organisations and entities other than government agencies responsible for public administration as a technical instruction instead of a legally binding regulation. Pursuant to the guidelines, personal information comprises sensitive personal information and general personal information. The term of sensitive personal information refers to the information once revealed or modified may have a negative effect on the subject of the information, such as identity no., mobile phone no., race, political viewpoint, religious belief, genes and fingerprint, etc. Other information can be deemed as general personal information. The sensitive personal information of each industry shall be determined according to the willingness of the subject accepting services and the respective industry characters. The sensitive personal information cannot be collected or used without the expressed authorisation of the subject, while the general personal information can be utilised based on the tacit consent of the subject.

LAWS AND REGULATIONS RELATING TO INTELLECTUAL PROPERTY

Copyright

Pursuant to the Copyright Law of the PRC (中華人民共和國著作權法) (the "Copyright Law"), which was amended in 2010 and with effect from 1 April 2010. Copyrights include personal rights such as the right of publication and that of attribution as well as property rights such as the right of production and that of distribution. Works which can be protected under Copyright Law include: written works; oral works; musical works, theatrical works, quyi (folk art), choreographic works and acrobatic works; works of fine arts and architectural works; photographic works; cinematographic works and works created by a process analogous to cinematography; graphics works such as drawings of engineering designs, drawings of product designs, maps, schematic drawings, and three-dimensional model works; computer software; etc. Reproducing, distributing, performing, projecting, broadcasting or compiling a work or communicating the same to the public via an information network without

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permission from the owner of the copyright therein, unless otherwise provided in the Copyright Law, shall constitute infringements of copyrights. The infringer shall, according to the circumstances of the case, undertake to cease the infringement, take remedial action, and offer an apology, pay damages, etc.

Trademark

Pursuant to the Trademark Law of the PRC (中華人民共和國商標法) (the “Trademark Law”), which was revised on 27 October 2001 and with effect from 1 December 2001, the right to exclusive use of a registered trademark shall be limited to trademarks which have been approved for registration and to goods for which the use of trademark has been approved. The period of validity of a registered trademark shall be ten years, counted from the day the registration is approved. According to the Trademark Law, using a trademark that is identical with or similar to a registered trademark in connection with the same or similar goods without the authorisation of the owner of the registered trademark constitutes an infringement of the exclusive right to use a registered trademark. The infringer shall, in accordance with the regulations, undertake to cease the infringement, take remedial action, and pay damages, etc. The Trademark Law has been further revised on 30 August 2013 and the revisions will become effective on 1 May 2014.

Patent

Pursuant to the Patent Law of the PRC (中華人民共和國專利法) (the “Patent Law”), which was revised on 27 December 2008 and with effect from 1 October 2009, after the grant of the patent right for an invention or utility model, except where otherwise provided for in the Patent Law, no entity or individual may, without the authorisation of the patent owner, exploit the patent, that is, make, use, offer to sell, sell or import the patented product, or use the patented process, or use, offer to sell, sell or import any product which is a direct result of the use of the patented process, for production or business purposes. And after a patent right is granted for a design, no entity or individual shall, without the permission of the patent owner, exploit the patent, that is, for production or business purposes, manufacture, offer to sell, sell, or import any product containing the patented design. Where the infringement of patent is decided, the infringer shall, in accordance with the regulations, undertake to cease the infringement, take remedial action, and pay damages, etc.

Domain Name

Pursuant to the Measures for the Administration of Internet Domain Names of China (中國互聯網域名管理辦法), which was promulgated on 5 November 2004 and with effect from 20 December 2004, “domain name” shall refer to the character mark of hierarchical structure, which identifies and locates a computer on the internet and corresponds to the Internet protocol (IP) address of that computer. And the principle of “first come, first serve” is followed for the domain name registration service. After completing the domain name registration, the applicant becomes the holder of the domain name registered by him/it. Furthermore, the holder shall pay operation fees for registered domain names on schedule. If the domain name holder fails to pay the corresponding fees as required, the original domain name registrar shall write it off and notify the holder of the domain name in written form.

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LAWS AND REGULATIONS RELATING TO PRICING

Pursuant to the Pricing Law of the PRC (中華人民共和國價格法) (the “Pricing Law”) issued by the NPC on 29 December 1997 and with effect from 1 May 1998, determination of prices must be in line with the law of value. Prices of most commodities and services shall be determined by the market. In selling or purchasing commodities and providing services, operators shall clearly mark the prices and clearly indicate the name, origin of production, specifications, grade, valuation unit and price of a commodity or service item, charging standards and other related particulars. Operators may not sell commodities at a premium or charge any fees that are not clearly indicated. Any operator who violates the provisions on clearly marking prices shall be ordered to set it right, his illegal gains shall be confiscated and he may also be fined not more than RMB5,000.

The operators may not commit any of the following illegitimate acts in pricing:

- (i) colluding with others to manipulate the market price, thus harming the lawful rights and interests of other managers or consumers;
- (ii) besides disposing of perishable, seasonal and overstocked commodities at reduced prices according to law, dumping commodities at prices lower than production cost in order to drive out rivals or monopolise the market, thus disrupting normal production and operational order and impairing the interests of the State or the lawful rights and interests of other managers;
- (iii) fabricating and spreading information about price hikes and forcing up prices, thus stimulating excessive commodity price hikes;
- (iv) using false or misleading prices to deceive consumers or other managers into transacting a deal with him;
- (v) while providing the same commodities or services, employing price discrimination against other managers with equal transaction conditions;
- (vi) forcing up or forcing down prices in disguised form by raising or lowering grades when purchasing or selling commodities or providing services;
- (vii) making exorbitant profits in violation of the provisions of laws and regulations; or
- (viii) other illegitimate acts in pricing prohibited by laws and administrative rules and regulations.

Any operator who commits any of the illegitimate acts listed the Pricing Law shall be ordered to make amends and compensate for the damages of injured party, his illegal gains shall be confiscated and he may also be fined not more than five times his illegal gains; if he has no illegal gains, he shall be given a disciplinary warning and may also be fined; if the circumstances are serious, he shall be ordered to suspend business for rectification, or his business licence shall be revoked.

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LAWS AND REGULATIONS RELATING TO ANTI-UNFAIR COMPETITION

Pursuant to the Anti-unfair Competition Law of the PRC (中華人民共和國反不正當競爭法) (the “Anti-unfair Competition Law”) promulgated on 2 September 1993 and with effect from 1 December 1993 by the Standing Committee of the NPC, operators shall not adopt any of the following unfair means to carry on transactions in the market and cause damage to competitors:

- (i) passing off the registered trademarks of others;
- (ii) using, without authorisation, the names, packaging or decoration peculiar to well-known goods or using names, packaging or decoration similar to those of well-known goods so that their goods are confused with the well-known goods of others, causing buyers to mistake them for the well-known goods of others;
- (iii) using, without authorisation, the enterprise names or personal names of others on their own goods, leading purchasers to mistake them for the goods of others;
- (iv) forging or falsely using, on their goods, symbols of quality such as symbols of authentication and symbols of famous and high-quality goods, falsifying the origin of their goods, and making false representations which are misleading as to the quality of the goods.

Operators shall not practice bribery by using money, valuables or other means to sell or buy goods except by paying a kickback entered in the book factually. Where Operators give a discount to the other party or pay a commission to the middlemen, it must enter the items in the book factually. The party accepting a discount or commission must enter it in the book factually as well. Operators shall not use advertisement or other means to give false, misleading information on the quality, composition, performance, use, manufacturer, useful life, origin, etc. of the goods. Operators shall not sell merchandise at a price lower than the cost to edge out competitors. However, below-cost pricing in the situations of handling overstocked merchandise, seasonal price reduction or sales of merchandise at a reduced price because of settlement of indebtedness, change of business or close of business, is not considered inappropriate competitive behaviour.

Any operator who commits any of the illegitimate acts listed in the Anti-unfair Competition Law shall be ordered to desist from the illegal act, dispel the bad influence or compensate for the damages of the injured party, his illegal gains shall be confiscated and he may also be fined; if the circumstances are serious, his business licence shall be revoked or even he shall be prosecuted for his criminal responsibility.

LAWS AND REGULATIONS RELATING TO PRODUCT QUALITY AND CONSUMER PROTECTION

Product Quality

The principal legal provisions governing product liability are set out in the Product Quality Law of the PRC (中華人民共和國產品質量法) (the “Product Quality Law”), which was last amended on 8 July 2000 and with effect from 8 July 2000. The Product Quality Law is applicable to all activities of production and sale of any product within the territory of the PRC, and the producers and sellers shall be liable for product quality in accordance with the Product Quality Law. According to the Product

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Quality Law, consumers or other victims who suffer personal injury or property losses due to product defects may demand compensation from the producer as well as the seller. Where the responsibility for product defects lies with the producer, the seller shall, after settling compensation, have the right to recover such compensation from the producer, and vice versa. Violations of the Product Quality Law may result in the imposition of fines. In addition, the seller or producer may be ordered to suspend operation and its business licence may be revoked. Criminal liability may be incurred in serious cases.

Consumer Protection

The principal legal provisions for the protection of consumer interests are set out in the Consumer Protection Law of the PRC (中華人民共和國消費者權益保護法) (the “Consumer Protection Law”), which was promulgated on 31 October 1993 and with effect from 1 January 1994. According to the Consumer Protection Law, the rights and interests of the consumers who buy or use commodities for the purposes of daily consumption or those who receive services are protected and all manufacturers and distributors involved must ensure that the products and services will not cause damage to persons and properties. Violations of the Consumer Protection Law may result in the imposition of fines. In addition, the operator will be ordered to suspend operations and its business licence will be revoked. Criminal liability may be incurred in serious cases. The Consumer Protection Law has been further revised on 25 October 2013 and the revisions will take effect from 15 March 2014.

LAWS AND REGULATIONS RELATING TO LABOUR

Employment Contracts

The Labour Contract Law of the PRC 《中華人民共和國勞動合同法》 (the “Labour Contract Law”), which was last amended on 28 December 2012 and with effect from 1 July 2013, governs the relationship between employers and employees and provides for specific provisions in relation to the terms and conditions of an employment contract. The Labour Contract Law stipulates that employment contracts must be in writing and signed. It imposes more stringent requirements on employers in relation to entering into fixed-term employment contracts, hiring of temporary employees and dismissal of employees.

Social Security Funds

Under applicable PRC laws and regulations, including the Social Insurance Law of The PRC (中華人民共和國社會保險法), which was promulgated on 28 October 2010 and with effect from 1 July 2011 by the Standing Committee of the NPC, and the Regulations on the Administration of Housing Accumulation Fund (住房公積金管理條例), which was amended by the State Council on 24 March 2002, employers and/or employees (as the case may be) are required to contribute to a number of social security funds, including funds for basic pension insurance, unemployment insurance, basic medical insurance, occupational injury insurance, maternity leave insurance, and to housing provident funds. These payments are made to local administrative authorities and employers who fail to contribute may be fined and ordered to rectify within a stipulated time limit.

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LAWS AND REGULATIONS RELATING TO ENVIRONMENTAL PROTECTION

The Environmental Protection Law of the PRC (中華人民共和國環境保護法) (the “Environmental Protection Law”), which was promulgated and became effective on 26 December 1989 by the Standing Committee of the NPC, establishes the legal framework for environmental protection in the PRC. The environmental protection department of the State Council supervises and administers the environmental protection work in the PRC, and establishes national standards for the environmental quality and discharge of pollutants. Local environmental protection bureaus are in turn responsible for the environmental protection work within their respective jurisdictions.

Prevention and Control of Pollutions

The Law of the PRC on Prevention and Control of Water Pollution (中華人民共和國水污染防治法), which was amended by the Standing Committee of the NPC on 28 February 2008, the Law of the PRC on Prevention and Control of Atmospheric Pollution (中華人民共和國大氣污染防治法), which was amended by the Standing Committee of the NPC on 29 April 2000, and the Law of the PRC on Prevention and Control of Environmental Noise Pollution (中華人民共和國環境噪聲污染防治法), which was promulgated on 29 October 1996 and with effect from 1 March 1997 by the Standing Committee of the NPC, as well as the Law of the PRC on the Prevention and Control of Environmental Pollution by Solid Wastes (中華人民共和國固體廢物污染環境防治法), which was amended by the Standing Committee of the NPC 29 December 2004, prescribe the details for the prevention and control of water pollution, atmospheric pollution, noise pollution and solid waste pollution.

Construction Project Environmental Protection

The Environmental Impact Appraisal Law (中華人民共和國環境影響評價法) which was promulgated on 28 October 2002 and with effect from 1 September 2003 by the Standing Committee of the NPC, the Administration Rules on Environmental Protection of Construction Projects (建設項目環境保護管理條例) which was promulgated by the State Council and became effective on 29 November 1998, require enterprises planning construction projects to engage qualified professional institution to provide assessment reports on the environmental impact of such projects. The assessment report must be approved by the competent environmental protection authorities prior to commencement of any construction work. Enterprises shall file an application for examination and acceptance of the environmental protection facilities upon the completion of the construction project. A construction project may be formally put into production or use only if the corresponding environmental protection facilities have passed the acceptance examination.

LAWS AND REGULATIONS RELATING TO THE TAXATION

Enterprise Income Tax

According to the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法) (the “EIT Law”), which was promulgated on 16 March 2007 and with effect from 1 January 2008, and the Implementation Rules to the EIT Law (中華人民共和國企業所得稅法實施條例) (the “Implementation Rules”), which was promulgated on 6 December 2007 and with effect from 1 January 2008 by the State Council, enterprises are divided into resident enterprises and non-resident enterprises. A resident enterprise shall pay enterprise income tax on its income deriving from both inside and outside China at the rate of enterprise income tax of 25%. A non-resident enterprise that has an establishment or place of

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business in the PRC shall pay enterprise income tax on its income deriving from inside China and obtained by such establishment or place of business, and on its income which derives from outside China but has actual relationship with such establishment or place of business, at the rate of enterprise income tax of 25%. A non-resident enterprise that does not have an establishment or place of business in China, or has an establishment or place of business in China but the income has no actual relationship with such establishment or place of business, shall pay enterprise income tax on its income deriving from inside China at the reduced rate of enterprise income tax of 10%.

Value-added Tax

Pursuant to the Provisional Regulations on Value-added Tax of the PRC (中華人民共和國增值稅暫行條例) (the “VAT Regulations”), which was amended by the State Council on 5 November 2008 and became effective on 1 January 2009, and its implementation rules (中華人民共和國增值稅暫行條例實施細則), which was amended by the Ministry of Finance of the PRC (中華人民共和國財政部) on 28 October 2011 and became effective on 1 November 2011, entities or individuals engaging in sale of goods, provision of processing services, repairs and replacement services or importation of goods within the territory of the PRC shall pay value-added tax. Unless provided otherwise, the rate of value-added tax is 17%.

Business Tax

Pursuant to Provisional Regulations of the People’s Republic of China on Business Tax (中華人民共和國營業稅暫行條例) which was amended by the standing Committee of the NPC on 5 November 2008 and with effect from 1 January 2009, all units and individuals engaged in the provision of services, the transfer of intangible assets or the sale of immovable properties within the territory of the PRC shall pay Business Tax. The applicable tax rates range from 3% to 20%.

LAWS AND REGULATIONS RELATING TO DIVIDEND DISTRIBUTION AND FOREIGN CURRENCY EXCHANGE

Dividend Distribution

Under the Law of the PRC on Wholly Foreign-Owned Enterprises (中華人民共和國外資企業法) which was amended by the Standing Committee of the NPC on 31 October 2001, and the Law of the PRC on Sino-foreign Equity Joint Ventures (中華人民共和國中外合資經營企業法) which was amended by the Standing Committee of the NPC on 15 March 2001, foreign-invested enterprises may not distribute after-tax profits unless they have contributed to the funds as required by PRC laws and regulations and have set off financial losses of previous accounting years.

Pursuant to Circular of the State Administration of Taxation on Issues Concerning Taxation and Administration of Individual Income Tax After the Repeal of the Document Guo Shui Fa (1993) No. 45 (國家稅務總局關於國稅發[1993] 045號文件廢止後有關個人所得稅徵管問題的通知) (the “Circular on Individual Income Tax After the Repeal of the Guo Shui Fa (1993) No. 45”) promulgated on 28 June 2011, in accordance with the Individual Income Tax Law of the People’s Republic of China and the Implementing Rules thereof, after the repeal of the Document No. 045, dividends and extra bonus derived by individual shareholders who are overseas residents from shares issued by domestic non-

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foreign-invested enterprises listed in Hong Kong shall be classified as “income from interest, dividends and extra bonus”, and tax withholding agents shall withhold individual income tax in accordance with the law.

The PRC and the government of Hong Kong entered into the Arrangement between the Mainland of the PRC and Hong Kong for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income (內地和香港特別行政區關於對所得稅避免雙重徵稅和防止偷漏稅的安排) (the “Arrangement”) on 21 August 2006. According to the Arrangement, the withholding tax rate 5% applies to dividends paid by a PRC company to a Hong Kong resident, provided that such Hong Kong resident directly holds at least 25% of the equity interests in the PRC company. The 10% withholding tax rate applies to dividends paid by a PRC company to a Hong Kong resident if such Hong Kong resident holds less than 25% of the equity interests in the PRC company.

Pursuant to the Circular of the State Administration of Taxation on Relevant Issues relating to the Implementation of Dividend Clauses in Tax Agreements (國家稅務總局關於執行稅收協定股息條款有關問題的通知) promulgated by the State Administration of Taxation of the PRC (中華人民共和國國家稅務總局) (the “State Administration of Taxation”) became effective on 20 February 2009, all of the following requirements shall be satisfied where a fiscal resident of the other party to a tax agreement needs to be entitled to such tax agreement treatment as being taxed at a tax rate specified in the tax agreement for the dividends paid to it by a Chinese resident company: (i) such a fiscal resident who obtains dividends should be a company as provided in the tax agreement; (ii) owner’s equity interests and voting shares of the Chinese resident company directly owned by such a fiscal resident reaches a specified percentage; and (iii) the equity interests of the Chinese resident company directly owned by such a fiscal resident, at any time during the twelve months prior to the obtainment of the dividends, reach a percentage specified in the tax agreement.

Pursuant to the Administrative Measures for Non-resident Enterprises to Enjoy Treatments under Tax Treaties (Trial) (非居民享受稅收協定待遇管理辦法(試行)) (the “Administrative Measures”), which came into force on 1 October 2009, where a non-resident enterprise (as defined under the PRC tax laws) that receives dividends from a PRC resident enterprise wishes to enjoy the favourable tax benefits under the tax arrangements, it shall submit an application for approval to the competent tax authority. Without being approved, the non-resident enterprise may not enjoy the favourable tax treatments provided in the tax agreements. Pursuant to the Circular on Individual Income Tax After the Repeal of the Guo Shui Fa (1993) No. 45, domestic non-foreign-invested enterprises listed in Hong Kong may, when distributing dividends and extra bonus, generally withhold individual income tax at the rate of 10%, and non-resident individual shareholders are not obligated to file an application.

Foreign Currency Exchange

The principal regulation governing foreign currency exchange in the PRC is the Foreign Exchange Administration Rules of the PRC (中華人民共和國外匯管理條例) (the “Foreign Exchange Administration Rules”) which was last amended on 1 August 2008 and with effect from 5 August 2008. Under these rules, Renminbi is generally freely convertible for payments of current account items, such as trade and service-related foreign exchange transactions and dividend payments, but not freely convertible for capital account items, such as capital transfer, direct investment, investment in securities, derivative products or loans unless the prior approval by the competent authorities for the administration of foreign exchange is obtained.

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Under the Foreign Exchange Administration Rules, foreign-invested enterprises in the PRC may purchase foreign exchange without the approval of PRC State Administration of Foreign Exchange (the “SAFE”) for paying dividends by providing certain evidencing documents (board resolutions, tax certificates, etc.), or for trade and services-related foreign exchange transactions by providing commercial documents evidencing such transactions. They are also allowed to retain foreign currency (subject to a cap approval by SAFE) to satisfy foreign exchange liabilities. In addition, foreign exchange transactions involving overseas direct investment or investment and trading in securities, derivative products abroad are subject to registration with the competent authorities for the administration of foreign exchange and approval or filings with the relevant governmental authorities (if necessary).

Pursuant to Circular of the State Administration of Foreign Exchange on Issues Concerning Foreign Exchange Control for Overseas Listing (國家外匯管理局關於境外上市外匯管理有關問題的通知) promulgated with effect on 28 January 2013, a domestic company’s collected funds of overseas listing may be transferred back to corresponding special domestic accounts or kept in special overseas accounts, provided that the use of such funds shall comply with the prospectus or corporate bonds collection documents, shareholders’ circulars, resolutions of the Shareholders’ Meetings and other publicly disclosed documents. Where the funds as collected by issuing corporate bonds convertible into stocks need to be transferred back, such funds shall be transferred to the special foreign debt account and used pursuant to relevant regulations on foreign debt administration; in the event of the funds as collected by issuing other forms of securities, such funds shall be transferred to corresponding special domestic accounts with respect to overseas listing.

HISTORY AND GROUP STRUCTURE

BUSINESS MILESTONES IN OUR HISTORY

The following are some of the important milestones in the history of our business to date:

Year	Event
2004	Established Quanzhou City Nuoqi
2008	Converted Quanzhou City Nuoqi into a joint stock limited liability company under the name “Fujian Nuoqi Co., Ltd. (福建諾奇股份有限公司)” Launched our own branded apparel under the N&Q brand
2010	Jointly set up the Donghua Nuoqi Fast Fashion Research Centre (東華諾奇快速時尚研究中心) with the Fashion Institute of Design of DongHua University (東華大學服裝學院) to develop fast fashion design capability Finalist in the “2009–2010 Top 500 Competitive Enterprises of Chinese Textile and Apparel Industry* (2009–2010年度中國紡織服裝企業競爭力500強)” and listed as top 20 in the Top 500 Menswear Enterprises* (500強男裝企業) by China Textile Industry Association Statistics Centre* (中國紡織工業協會統計中心)
2011	Established Shanghai Nuoqi Won “The 7th China National Garment Association Award — Innovation Award* (第七屆中國服裝品牌年度大獎 — 創新獎)” presented by the China National Garment Association (中國服裝協會) Recognised as a “Famous Trademark of China* (中國馳名商標)” by the Trademark Office of The State Administration For Industry and Commerce (國家工商行政管理總局商標局) and a “Famous Trademark of Fujian Province (福建省著名商標)” by the Administration For Industry and Commerce of Fujian (福建省工商行政管理局) Regarded as one of the “2010–2011 Top 10 Competitive Enterprises in Chinese Apparel Industry* (2010–2011年度中國服裝行業競爭力10強企業)” by the China Textile Industry Association Statistics Centre* (中國紡織工業協會統計中心) and China National Garment Association (中國服裝協會) Regarded as one of the “2010–2011 Top 500 Competitive Enterprises of Chinese Textile and Apparel Industry* (2010–2011年度中國紡織服裝企業競爭力500強)” by China Textile Industry Association* (中國紡織工業協會)
2012	Ranked 30th in the “2011 Top 100 Enterprises in Garment Industry in terms of sales margin* (2011年服裝行業銷售利潤率百強企業(30))” and ranked 94th in the “2011 Top 100 Enterprises in Garment Industry in terms of total profit* (2011年服裝行業利潤總額百強企業(94))” by the China National Garment Association (中國服裝協會)
2013	Our retail points reached 438 by the end of October 2013 Recognised as an “AAA Credit Enterprise (企業信用評價AAA級信用企業)” by China General Chamber of Commerce (中國商業聯合會) for the period from 16 March 2013 to 15 March 2016 Recognised as “China Excellent Model Enterprise in “Quality and Service Integrity” Commitment* (全國“品質和服務誠信”承諾優秀示範企業)” by China Association for Quality Inspection* (中國品質檢驗協會)

HISTORY AND GROUP STRUCTURE

OUR HISTORY AND DEVELOPMENT

The history of our Company started in 2004 when our co-founders, namely Mr. Ding Hui and Mr. Ding Canyang who are brothers, established Quanzhou City Nuoqi in the PRC as a limited liability company with a registered capital of RMB750,000, of which approximately 50.67% was contributed by Mr. Ding Canyang and approximately 49.33% was contributed by Mr. Ding Hui.

On 7 August 2006, the registered capital of Quanzhou City Nuoqi was increased from RMB750,000 to RMB8.0 million in order to increase existing retail points. In relation to the RMB7.25 million increase in registered capital, Mr. Ding Hui and Mr. Ding Canyang contributed RMB3.63 million and RMB3.62 million, respectively. As a result of such capital contribution, Quanzhou City Nuoqi was then held as to 50.00% by Mr. Ding Hui and 50.00% by Mr. Ding Canyang.

Towards the end of 2007, in recognition of Quanzhou City Nuoqi's ability to manage its sales network, various individuals and institutional investors decided to invest in Quanzhou City Nuoqi. As a result, on 30 November 2007, the registered capital of Quanzhou City Nuoqi was increased from RMB8.0 million to RMB60.0 million. In relation to the RMB52.0 million increase in registered capital, Mr. Ding Hui, Mr. Ding Canyang, and the new shareholders, namely He Zhong Investment, Nuoqi Investment, Mr. Yang Jianhui (楊建輝) (an Independent Third Party) and Mr. Wang Zongqing (王宗清) (an Independent Third Party) contributed RMB29.0 million, approximately RMB12.4 million, RMB4.5 million, RMB3.0 million, approximately RMB2.5 million and RMB600,000, respectively. Mr. Yang Jianhui and Mr. Wang Zongqing are individual financial investors. Please refer to the paragraph headed "Background of the Institutional Investors" in this section for details of He Zhong Investment and Nuoqi Investment. As a result of such capital contribution, the shareholding of Quanzhou City Nuoqi was as below:

Mr. Ding Hui	55.00%
Mr. Ding Canyang	27.34%
He Zhong Investment	7.50%
Nuoqi Investment	5.00%
Mr. Yang Jianhui	4.16%
Mr. Wang Zongqing	<u>1.00%</u>
	<u>100%</u>

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On 17 December 2007, Mr. Ding Canyang entered into an equity transfer agreement with Mr. Xu Mingqing (許明清) (an Independent Third Party) pursuant to which Mr. Ding Canyang agreed to transfer 7.00% of the equity interest in Quanzhou City Nuoqi to Mr. Xu Mingqing for a consideration of RMB4.2 million, which was determined by reference to the registered capital of Quanzhou City Nuoqi. Mr. Xu Mingqing is an individual financial investor. After the transfer, the shareholding of Quanzhou City Nuoqi was as below:

Mr. Ding Hui	55.00%
Mr. Ding Canyang	20.34%
He Zhong Investment	7.50%
Mr. Xu Mingqing	7.00%
Nuoqi Investment	5.00%
Mr. Yang Jianhui	4.16%
Mr. Wang Zongqing	1.00%
	<u>100%</u>

OUR REORGANISATION

In order to consolidate our assets and rationalise our group structure, Quanzhou City Nuoqi underwent assets reorganisation and conversion into a joint stock limited liability company in the end of 2007.

Assets Reorganisation

Prior to the end of 2007, Quanzhou City Nuoqi was mainly engaged in the business of sales of general menswear including brands owned by our Controlling Shareholders (other than the N&Q brand and which have ceased to be used after the launch of the N&Q brand) and other brands. In anticipation to launch our own branded apparel under the N&Q brand and in order to improve our brand image and to consolidate and impose better control over our retail points, on 15 November 2007, Quanzhou City Nuoqi entered into an assets transfer agreement with each of Mr. Ding Hui, Mr. Ding Canyang, Ms. Ding Yingfang (丁穎芳) (our employee), Mr. Su Zhizhan (蘇志展) (our employee), Mr. Zheng Zhencheng (鄭鎮城) (our employee at the material time), Ms. Lu Suping (盧素萍) (an Independent Third Party), Mr. Yang Zhinan (楊志南) (an Independent Third Party) and Mr. Chen Maohua (陳茂華) (an Independent Third Party) (collectively referred to as “Transferors” and each, a “Transferor”), all of whom were operating a total of 70 retail points either as self-operated retail points (in respect of our Controlling Shareholders, being Mr. Ding Hui and Mr. Ding Canyang) or our franchised retail points (in respect of the other Transferors), to acquire the assets of the 70 retail points, including (i) the value of the renovation work (including the equipment and supporting facilities); and (ii) all rental deposits and prepaid rents paid to the lessors by the Transferors. The consideration, in the aggregate amount of approximately RMB23.8 million, was calculated by the sum of (a) the value of renovation work (including the equipment and supporting facilities) as assessed on 30 September 2007 (“Valuation Date”) minus amortisation for the period from the Valuation Date to the date of the assets transfer; and (b) the actual amount of rental deposits and prepaid rents that the relevant Transferor paid to the relevant lessor for the period from the date of the assets transfer to the expiry of the relevant lease.

On 1 February 2008, our Company entered into four assets transfer agreements with Mr. Ding Hui and one assets transfer agreement with Mr. Su Zhizhan to transfer back to Mr. Ding Hui and Mr. Su Zhizhan the assets of five retail points, of which the business licences could not be obtained within the

HISTORY AND GROUP STRUCTURE

expected timeline. The consideration, in the aggregate amount of approximately RMB1.6 million, was calculated based on the assessed value as per the relevant assets valuation reports minus the amortisation of assets from the Valuation Date to 1 February 2008 and was received by our Company on 29 February 2008.

Further, in order to eliminate competing businesses between Mr. Ding Hui and our Company, Mr. Ding Hui subsequently transferred the assets of the aforementioned four retail points to each of Mr. Zhuang Kunxiong (莊坤雄) (who further transferred the relevant retail point to an Independent Third Party), Ms. Xu Yulan (徐玉蘭), Mr. Lan Changlu (藍昌祿) and Ms. Zhuang Yingying (莊瑩瑩), all of whom are Independent Third Parties.

After the aforementioned assets reorganisation, the number of our retail points was increased from one to 66.

As at the Latest Practicable Date, the aforementioned retail points owned by Mr. Lan Changlu and Mr. Su Zhizhan have ceased operation and the other three retail points remained as our franchised retail points with valid business licences.

Conversion into a Joint Stock Limited Liability Company

On 30 December 2007, Mr. Ding Hui, Mr. Ding Canyang, He Zhong Investment, Mr. Xu Mingqing, Nuoqi Investment, Mr. Yang Jianhui and Mr. Wang Zongqing (collectively referred to as the “Promoters”) entered into a Promoter’s Agreement (福建諾奇股份有限公司發起人協議). On 31 December 2007, the Promoters resolved to convert Quanzhou City Nuoqi into a joint stock limited liability company with a registered capital of RMB60.0 million. As at 31 December 2007, the net asset value of Quanzhou City Nuoqi amounted to approximately RMB60.3 million, of which RMB60 million had been converted into 60.0 million shares (RMB1.0 par value per share), and issued to the Promoters in proportion to their then capital contribution to Quanzhou City Nuoqi. The remaining amount of approximately RMB300,000 was converted to capital reserve. Upon the completion of registration with the Quanzhou Administration for Industry and Commerce (泉州市工商行政管理局) on 22 January 2008, Quanzhou City Nuoqi was converted into a joint stock limited liability company and renamed to “Fujian Nuoqi Co., Ltd. (福建諾奇股份有限公司)” and its shareholding was as below:

Mr. Ding Hui	55.00%
Mr. Ding Canyang	20.34%
He Zhong Investment	7.50%
Mr. Xu Mingqing	7.00%
Nuoqi Investment	5.00%
Mr. Yang Jianhui	4.16%
Mr. Wang Zongqing	1.00%
	<u>100%</u>

On 19 November 2009, Mr. Xu Mingqing transferred (i) 2.4 million shares in our Company to Mr. Qian Mingfei (錢明飛) (an Independent Third Party) for a consideration of approximately RMB5.0 million; and (ii) 1.8 million shares in our Company to Mr. Wang Yi (王毅) (an Independent Third Party) for a consideration of approximately RMB3.8 million. Mr. Qian Mingfei and Mr. Wang Yi are

HISTORY AND GROUP STRUCTURE

individual financial investors. The share transfer price was determined with reference to the net asset value of our Company as at 30 September 2009. After such share transfers, the shareholding of our Company was as below:

Mr. Ding Hui	55.00%
Mr. Ding Canyang	20.34%
He Zhong Investment	7.50%
Nuoqi Investment	5.00%
Mr. Yang Jianhui	4.16%
Mr. Qian Mingfei	4.00%
Mr. Wang Yi	3.00%
Mr. Wang Zongqing	1.00%
	100%

On 15 December 2009, the registered share capital of our Company was increased from RMB60.0 million to RMB67.0 million to meet the capital need for development of our Company. Silicon Shenzhen, Mr. Sun Shanzhong (孫善忠) (an Independent Third Party) and Mr. Li Ruoxi (李若溪) (an Independent Third Party and also an employee of Silicon Shenzhen at the material time) have subscribed for 4.35 million new shares, 2.0 million new shares and 650,000 new shares, respectively, at the consideration of approximately RMB20.0 million, RMB9.2 million and approximately RMB3.0 million, respectively. The contribution was determined with reference to the financial performance of our Company at the relevant time. Mr. Sun Shanzhong and Mr. Li Ruoxi are individual financial investors. Please refer to the paragraph headed “Background of the Institutional Investors” in this section for details of Silicon Shenzhen. After the shares subscription, the approximate shareholding of our Company was as below:

Mr. Ding Hui	49.24%
Mr. Ding Canyang	18.21%
He Zhong Investment	6.72%
Silicon Shenzhen	6.49%
Nuoqi Investment	4.48%
Mr. Yang Jianhui	3.73%
Mr. Qian Mingfei	3.58%
Mr. Sun Shanzhong	2.99%
Mr. Wang Yi	2.69%
Mr. Li Ruoxi	0.97%
Mr. Wang Zongqing	0.90%
	100%

On 16 November 2011, the registered share capital of our Company was increased from RMB67.0 million to RMB75.0 million. Mr. Ding Hui, Mr. Yang Jianhui, Mr. Sun Shanzhong, Tian Run Venture Enterprise and Jia Xing Venture Enterprise have subscribed for 750,000 new shares, 1.0 million new shares, 250,000 new shares, 3.0 million new shares and 3.0 million new shares, respectively, at the consideration of RMB9.0 million, RMB12.0 million, RMB3.0 million, RMB36.0 million and RMB36.0 million, respectively. The contribution was determined with reference to the financial performance of

HISTORY AND GROUP STRUCTURE

our Company at the relevant time. Please refer to the paragraph headed “Background of the Institutional Investors” in this section for details of Tian Run Venture Enterprise and Jia Xing Venture Enterprise. After the shares subscription, the approximate shareholding of our Company was as below:

Mr. Ding Hui	45.00%
Mr. Ding Canyang	16.27%
He Zhong Investment	6.00%
Silicon Shenzhen	5.80%
Mr. Yang Jianhui	4.66%
Nuoqi Investment	4.00%
Jia Xing Venture Enterprise	4.00%
Tian Run Venture Enterprise	4.00%
Mr. Qian Mingfei	3.20%
Mr. Sun Shanzhong	3.00%
Mr. Wang Yi	2.40%
Mr. Li Ruoxi	0.87%
Mr. Wang Zongqing	0.80%
	<u>100%</u>

On 26 March 2012, the registered share capital of our Company was further increased from RMB75.0 million to RMB90.0 million by way of the conversion of capital reserve on the basis of every 10 shares converted into 12 shares to all the then Shareholders. Following the conversion, the number of shares was increased by 15 million shares and the percentage of shareholdings of the then existing Shareholders remained unchanged.

On 25 April 2013, Mr. Ding Canyang and Mr. Yang Jianhui entered into an equity transfer agreement pursuant to which Mr. Yang Jianhui agreed to transfer all his equity interest in our Company, representing approximately 4.66% of the total registered capital of our Company, to Mr. Ding Canyang for a consideration of approximately RMB35.7 million. On the same day, Mr. Ding Canyang and Ju Teng Investment entered into an equity transfer agreement pursuant to which Mr. Ding Canyang agreed to transfer approximately 2.61% of the equity interest in our Company to Ju Teng Investment for a consideration of approximately RMB20.0 million. Please refer to the paragraph headed “Background of the Institutional Investors” in this section for details of Ju Teng Investment. After such share transfers, the approximate shareholding of our Company was as below:

Mr. Ding Hui	45.00%
Mr. Ding Canyang	18.32%
He Zhong Investment	6.00%
Silicon Shenzhen	5.80%
Nuoqi Investment	4.00%
Jia Xing Venture Enterprise	4.00%
Tian Run Venture Enterprise	4.00%
Mr. Qian Mingfei	3.20%
Mr. Sun Shanzhong	3.00%
Ju Teng Investment	2.61%
Mr. Wang Yi	2.40%
Mr. Li Ruoxi	0.87%
Mr. Wang Zongqing	0.80%
	<u>100%</u>

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As advised by our PRC legal adviser, Fujian Junli Law Firm, all the aforementioned equity transfers and assets transfers of our Company occurred since 17 December 2007 are legally effective and binding on the relevant parties, and have all been properly and legally completed and settled.

Our A-share Listing Applications

On 6 March 2011, we submitted our first A-share¹ listing application to the CSRC (the “First Application”) and we were notified by the CSRC that the First Application was not approved on 9 November 2011. On 18 May 2012, we made the second submission of A-share listing application to the CSRC (the “Second Application”) after the lapse of six months from the First Application. However, having considered the expected prolonged delay and uncertainty regarding the approval procedures for A-share listing applications, and the expected substantially shorter time required for a listing in Hong Kong and benefits of an international investor base, we decided to apply for listing on the Hong Kong Stock Exchange. Therefore, we submitted an application to the CSRC to withdraw the Second Application on 19 March 2013 and accordingly, the CSRC confirmed they have discontinued its review of the Second Application on 1 April 2013.

Background of the Individual Shareholders

Immediately prior to the completion of the Global Offering, our Company is owned by a total of seven individual Shareholders and six institutional investors. Mr. Ding Hui and Mr. Ding Canary are our executive Directors and Controlling Shareholders. The remaining five individual Shareholders, being Mr. Qian Mingfei, Mr. Sun Shanzhong, Mr. Wang Yi, Mr. Li Ruoxi and Mr. Wang Zongqing, are businessmen who have been looking for investment opportunities in the PRC. They came to know Mr. Ding Hui by introduction through Mr. Ding Hui’s friends and they held optimistic views on the prospect of our Company when they decided to invest in our Company. They are all Independent Third Parties and as far as our Directors are aware, they do not have any past or present relationship (other than being Shareholders) among themselves.

Background of the Institutional Investors

Save as disclosed specifically below, the six institutional investors of our Company immediately prior to the completion of the Global Offering, being He Zhong Investment, Silicon Shenzhen, Nuoqi Investment, Jia Xing Venture Enterprise, Tian Run Venture Enterprise and Ju Teng Investment, are investment companies which have been looking for investment opportunities in the PRC. Apart from Nuoqi Investment, these institutional investors came to know Mr. Ding Hui by introduction through Mr. Ding Hui’s friends and they held optimistic views on the prospect of our Company when they decided to invest in our Company. There was no special right granted to any of these institutional investors. To the best of our Directors’ knowledge, information and belief having made all reasonable enquiry, the respective ultimate beneficial owners (save for Ms. Ding Lixia, Mr. Chen Quanyi, Mr. Han Huiyuan and Ms. Gu Tao) of the six institutional investors of our Company are Independent Third Parties and not connected with our Company and its Subsidiaries.

The Shares in issue prior to our Company’s public offering cannot be transferred within one year from the Listing Date.

¹ domestic shares which are subscribed for or credited as paid up in Renminbi and to be listed for trading on a stock exchange in the PRC.

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He Zhong Investment

He Zhong Investment is an investment company and was established on 22 November 2007 in the PRC by Ms. Ding Lixia, a non-executive Director of our Company and the sister of Mr. Ding Hui and Mr. Ding Canyang, and 8 other individual financial investors who are Independent Third Parties. Ms. Ding Lixia owns 28.20% interest in registered capital of He Zhong Investment. Apart from investment in our Company, He Zhong Investment does not hold any other investment. As at the Latest Practicable Date, He Zhong Investment holds 6.00% interest in the registered capital of our Company.

Save as disclosed above, He Zhong Investment does not have any past or present relationship with our Company, our subsidiaries, our Directors and senior management (or any of their respective associates) and other Shareholders.

Silicon Shenzhen

Silicon Shenzhen is an investment company and was established on 2 June 2009 in the PRC. Silicon Shenzhen is held as to (i) 10.00% by Heaven-Sent Capital Management Group Co., Ltd. (硅谷天堂資產管理集團股份有限公司), which in turn is held as to approximately 0.17% by Mr. Han Huiyuan, a non-executive Director of our Company; and (ii) 90.00% by Wuhua Zhao Xian Investment Co., Ltd.* (五華縣兆賢投資有限公司), Zhejiang Silicon Valley Equity Investment Management Group Co., Ltd* (浙江天堂硅谷股權投資管理集團有限公司), Shenzhen City Tong Fu Sheng Investment Co., Ltd.* (深圳市同富盛投資有限公司), Shenzhen City Bright Investment and Development Co., Ltd* (深圳市光亮投資發展有限公司), Shenzhen City Yi Shen Industrial Co., Ltd.* (深圳市宜盛實業有限公司) and 36 other individual shareholders, each holding not more than 4.00% of the equity interest in Silicon Shenzhen. As at the Latest Practicable Date, Silicon Shenzhen holds 5.80% interest in the registered capital of our Company and Mr. Han Huiyuan has less than 0.001% effective interest in our Company.

Save as disclosed above, Silicon Shenzhen does not have any past or present relationship with our Company, our subsidiaries, our Directors and senior management (or any of their respective associates) and other Shareholders.

Nuoqi Investment

Nuoqi Investment was established on 22 November 2007 in the PRC by Ms. Ding Lixia and 12 other individuals, among which 8 of them are current employees of our Company while 4 of them are ex-employees of our Company, to hold the employees' investments in our Company. Ms. Ding Lixia is the legal representative of Nuoqi Investment and holds 66.10% equity interest in registered capital of Nuoqi Investment. Mr. Chen Quanyi, an executive Director of our Company, and Ms. Gu Tao, a Supervisor, respectively holds 1.70% and 4.20% equity interests in Nuoqi Investment. The remaining 10 employees each holds not more than 6.00% of the equity interests in Nuoqi Investment. Apart from investment in our Company, Nuoqi Investment does not hold any other investment. As at the Latest Practicable Date, Nuoqi Investment holds 4.00% interest in the registered capital of our Company.

Save as disclosed above, Nuoqi Investment does not have any past or present relationship with our Company, our subsidiaries, our Directors and senior management (or any of their respective associates) and other Shareholders.

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Jia Xing Venture Enterprise

Jia Xing Venture Enterprise, an Independent Third Party, was established on 6 July 2011 in the PRC and it is principally engaged in private equity investments. As at the Latest Practicable Date, Jia Xing Venture Enterprise holds 4.00% interest in the registered capital of our Company.

Save as disclosed above, Jia Xing Venture Enterprise does not have any past or present relationship with our Company, our subsidiaries, our Directors and senior management (or any of their respective associates) and other Shareholders.

Tian Run Venture Enterprise

Tian Run Venture Enterprise, an Independent Third Party, was established on 25 January 2011 in the PRC and it is principally engaged in private equity investments. Tian Run Venture Enterprise is approximately 17.86% beneficially owned by Mr. Qian Mingfei. As at the Latest Practicable Date, Tian Run Venture Enterprise holds 4.00% interest in the registered capital of our Company.

Save as disclosed above, Tian Run Venture Enterprise does not have any past or present relationship with our Company, our subsidiaries, our Directors and senior management (or any of their respective associates) and other Shareholders.

Ju Teng Investment

Ju Teng Investment, an Independent Third Party, was established on 4 March 2013 in the PRC. The business scope of Ju Teng Investment includes investment in non-listed companies, investment in listed companies by way of subscription for non-public issue shares or share transfer and provision of related consultation services. As at the Latest Practicable Date, Ju Teng Investment holds approximately 2.61% interest in the registered capital of our Company.

Save as disclosed above, Ju Teng Investment does not have any past or present relationship with our Company, our subsidiaries, our Directors and senior management (or any of their respective associates) and other Shareholders.

OUR SUBSIDIARIES

1. Shanghai Nuoqi

Shanghai Nuoqi was established in the PRC as a limited liability company on 19 April 2011 by our Company with a registered capital of RMB60.0 million. The business scope of Shanghai Nuoqi includes (1) the research and development in the clothing and apparel industry; (2) computer hardware and software development; (3) electronic commerce (excluding the value-added telecommunications services and financial services); and (4) the sales of clothing, apparels, shoes, bags, leather products, stationery, jewellery, bedroom accessories, toys, glasses (except contact lens) and daily consumer goods.

2. Quanzhou Nuoqi

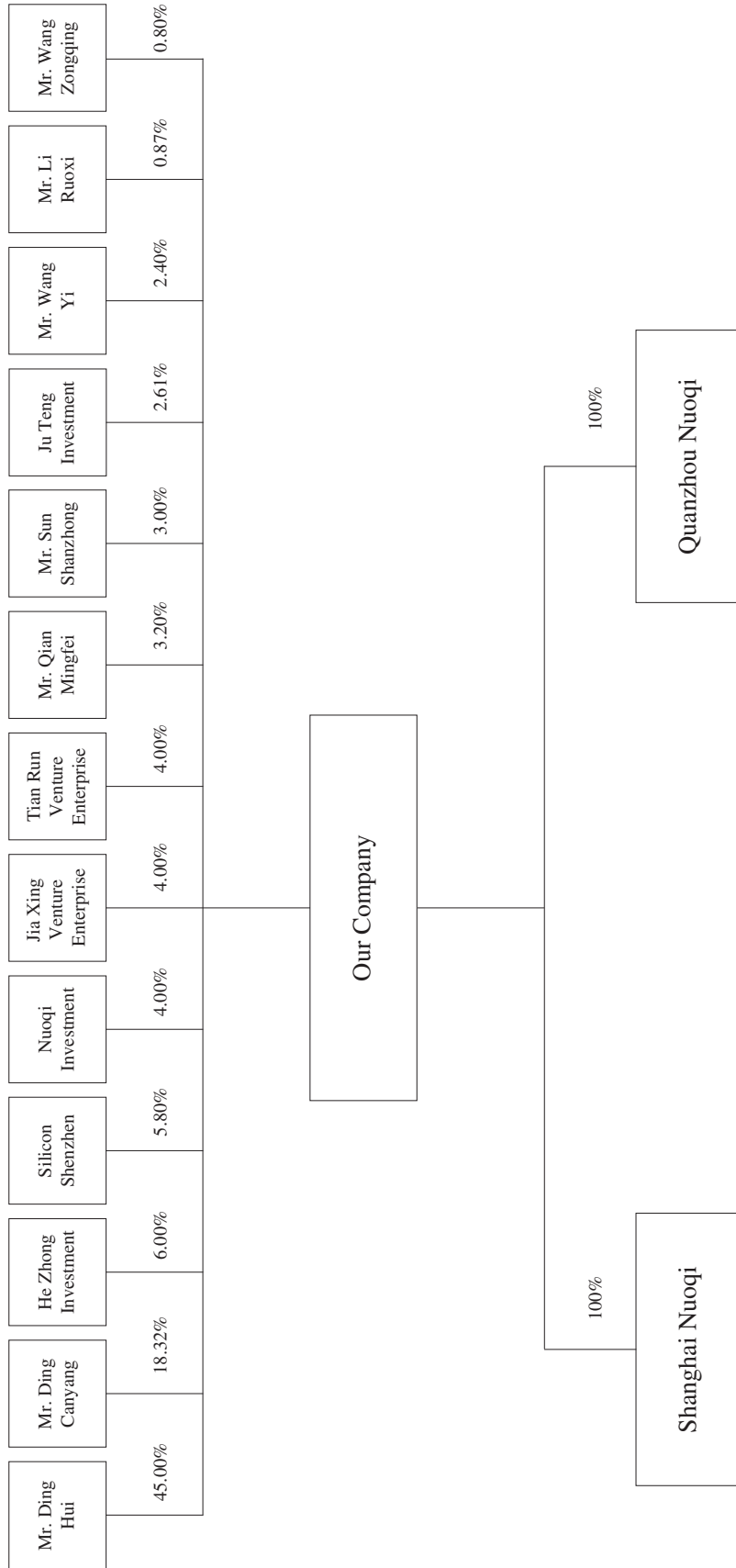
Quanzhou Nuoqi was established in the PRC as a limited liability company on 15 January 2013 by our Company with a registered capital of RMB15.0 million. The business scope of Quanzhou Nuoqi includes (1) the wholesale and sales (including online sales) of clothing, apparels, bags, leather products, construction materials, bedroom accessories, shoes materials (excluding dangerous chemicals), sports gear, stationery, jewellery, toys, glasses; (2) computer hardware and software development; and (3) investment in manufacturing industry and commercial trading industry.

Our Company has been our main operating entity and is responsible for the overall management of our Group. Shanghai Nuoqi is established primarily as our product centre for product design and development, procurement and production quality control and is also responsible for the management of our franchised retail points located outside Fujian Province. Quanzhou Nuoqi is primarily responsible for the management of our franchised retail points located within Fujian Province. In addition, both Shanghai Nuoqi and Quanzhou Nuoqi are responsible for the management of our self-operated retail points together with our Company.

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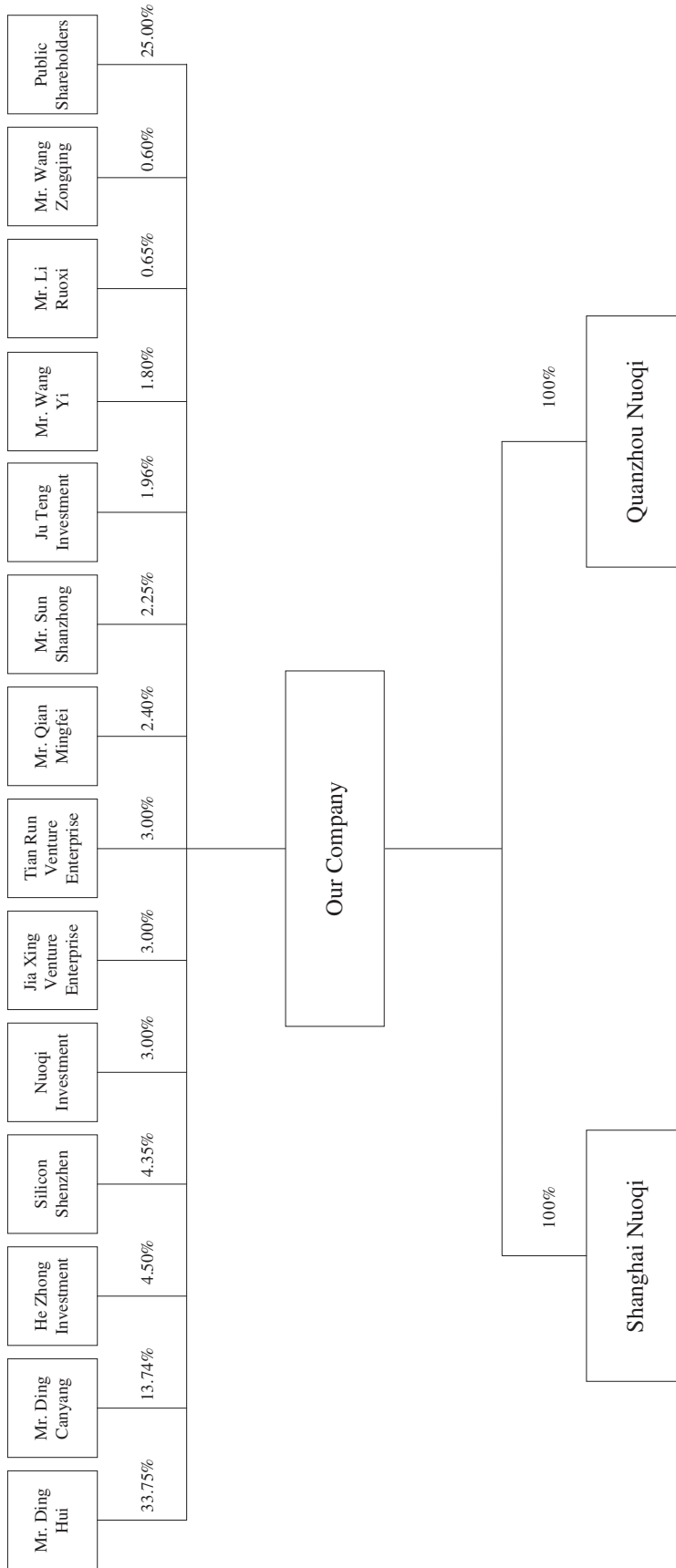
OUR SHAREHOLDING AND GROUP STRUCTURE

The following chart sets out our shareholding structure and our Subsidiaries immediately prior to the completion of the Global Offering:



HISTORY AND GROUP STRUCTURE

The following chart sets out our shareholding structure and our Subsidiaries immediately after the completion of the Global Offering (assuming the Over-allotment Option is not exercised):



Save as the interest in the registered capital of our Company held by Mr. Ding Hui, Mr. Ding Canyang (each being an executive Director and a Controlling Shareholder of our Company) and Nuoqi Investment (being a controlled corporation by Ms. Ding Lixia who is a non-executive Director) which are not considered part of the public float for the purposes of Rule 8.08 of the Hong Kong Listing Rules, 49.51% of the interest in the registered capital of our Company will be held in public hands after completion of the Global Offering (assuming the Over-allotment Option is not exercised).

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OVERVIEW

We are a rapidly expanding men's fashion casual wear apparel company in the PRC. We offer a wide range of men's fashion casual wear products such as jackets, sweaters, shirts, T-shirts, trousers, shoes and accessories under our own brand, N&Q. We target customers who are primarily young and middle-aged men from the age of 25 to 40 in the PRC.

We are one of the earliest companies in the PRC to adopt a market-driven fast fashion business model that integrates key elements of the SPA model. We focus on the management of retail points and integration of key components of the retail and supply chain such as product planning and design, production and quality control, logistics and sales. Under our business model, we develop and promote our strong customer membership programme to collect useful consumer information from our substantial membership base across our self-operated and franchised retail points. We analyse and apply this consumer information (including spending history and preferences) in our product design and development. Through these steps, we are able to identify the latest market needs and changing consumer trends so as to quickly design, develop and bring new commercially viable and popular products to market.

Our business model allows our retail points to order products in smaller batches throughout the season according to the market demand, as opposed to placing a single large order pre-season. Under our "6-2-2" procurement model, we typically plan to procure approximately 60% of our total estimated demand ahead of the upcoming season, approximately 20% during the season itself for our more popular products and products with strong potential sales growth based on actual consumer demand, and another approximately 20% for our best-selling products and products modified from existing best-selling products with new supplementary features in order to capture strong market demand. We have effectively managed our outsourced production process and monitored customer sales at retail points under our management information system, while closely tracking real customer demand. Our procurement model also allows us to reduce the risk of excessive inventory.

We have developed an attractive customer membership programme which had as at 30 June 2013 approximately 1,054,000 members registered since its establishment. We offer membership benefits such as product discounts, fashion advice, sales previews, personal invitations to our member-only events and miscellaneous gifts. Our large customer base provides us with a reliable source to gather useful market and customer information which we have applied in the design and development of our new products, customer services, and sales and marketing activities. We generate a significant portion of our revenue from sales to members of our customer membership programme.

Our IEAP System, an integrated management information system, improves the management of our supply chain and retail points. Our management information system provides us with immediate access to inventory, sales and other operational data at our self-operated and franchised retail points. As a result, we are able to make informed decisions on production planning, sales and marketing and inventory management based on this real-time data. Our management information system also allows us to monitor and coordinate the procurement and delivery of our inventory between our warehouses and retail points on a real time basis.

As at 31 October 2013, we had developed a strategic network of 438 retail points across China, comprising 225 self-operated retail points and 213 franchised retail points. These 225 self-operated retail points comprised department store concession counters, stand-alone stores and stores under cooperative

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arrangement. We believe that a network comprising a mix of both self-operated and franchised retail points is critical to the success of our business. Our franchisees bring local market knowledge that contributes to the success of our retail points in new markets. We have adopted a set of standard management practices for both our self-operated and franchised retail points. Our comprehensive guidelines on retail point management cover branding, visual merchandising, personnel recruiting, training and staff performance evaluation. We also have specific policies governing the use of our N&Q brand, product image and positioning, the identification and selection of store sites, decoration and renovation, and new store opening procedures.

The PRC men's fashion casual wear industry is a fast growing industry. The growth is attributable to the continuing steady growth in the PRC economy and the increase in average spending on clothing in the PRC, as well as the marketing efforts of apparel brand owners such as us. Despite the growth of China's nominal GDP decreased to 10.1% in 2012, China remains one of the fastest growing economies among the world. According to Frost & Sullivan, in 2012, the total retail sales value of the men's fashion casual wear market in the PRC reached RMB77.3 billion, growing at a CAGR of 15.6% from RMB43.3 billion in 2008. According to Frost & Sullivan, the total retail sales value of the PRC men's fashion casual market is projected to continue to grow at a CAGR of approximately 17.6% from 2012 to 2017.

We grew rapidly during the Track Record Period. Our revenue increased from RMB322.2 million for the year ended 31 December 2010 to RMB572.1 million for the year ended 31 December 2012, representing a CAGR of 33.3%, and further increased by RMB39.9 million, or 14.4%, from RMB276.2 million for the six months ended 30 June 2012 to RMB316.1 million for the six months ended 30 June 2013. Our net profit also grew significantly from RMB45.7 million for the year ended 31 December 2010 to RMB81.7 million for the year ended 31 December 2012, representing a CAGR of 33.7%. Our net profit further increased by RMB6.5 million, or 16.2%, from RMB40.2 million for the six months ended 30 June 2012 to RMB46.7 million for the six months ended 30 June 2013.

OUR COMPETITIVE STRENGTHS

We believe that the following competitive strengths are key factors for our ongoing success:

We adopt a market-driven fast fashion business model that enables us to accurately identify the latest customer preferences and effectively plan and supply our products to meet market demands, while offering greater operational flexibility to our retail points in terms of product ordering

We are one of the earliest companies in the PRC to adopt a market-driven fast fashion business model that integrates key elements of the SPA model, which is adopted by various international fast fashion apparel retailers. The SPA model focuses on the management of retail points and integration of key components of the retail and supply chain, such as product planning and design, production, logistics and sales, to identify the latest fashion trends and customer preferences in order to quickly design, develop and bring new commercially viable and popular products to market.

Under our business model, we develop and promote our strong customer membership programme to collect useful consumer information, such as spending history and preferences, from our substantial membership base across our self-operated and franchised retail points, all of which are under our direct

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management and linked to our management information system. By analysing this consumer information and applying the information in our product design and development, we are able to better understand the latest market needs and changing consumer trends and quickly develop new fashionable products.

Our business model also provides more flexibility in terms of product ordering and allows our retail points to order products in smaller batches throughout the season according to the market demand, as opposed to placing a single large pre-season order. To complement our product batch order system, under our business model, we typically plan to procure approximately 60% of our total estimated demand ahead of the upcoming season, approximately 20% during the season itself for our more popular products and products with strong potential sales growth based on actual consumer demand, and another approximately 20% for our best-selling products and products modified from existing best-selling products with new supplementary features in order to capture strong market demand. As a result of our ability to effectively manage our outsourced production process and monitor customer sales at retail points under our management information system, our procurement model ensures that our products closely track real customer demand. This proactive approach has enabled us to rapidly respond to changing customer demand in a more effective and timely manner, as well as reduce the risk of excessive inventory. For the year ended 31 December 2010, 2011 and 2012 and for the six months ended 30 June 2013, our average inventory turnover days were 95.3, 97.9, 111.6 days and 114.3 days, respectively. For the year ended 31 December 2010, we had write back of inventory provision in the amount of RMB49,000, and our inventory provision costs (representing the provisions and allowances we make for obsolete inventories) were RMB1.4 million, RMB2.4 million and RMB1.5 million for the year ended 31 December 2011 and 2012 and for the six months ended 30 June 2013, respectively. We consider our inventory turnover days during the Track Record Period to be comparatively low in contrast to the other PRC men's fashion casual wear companies each with substantial retail operation.

We have received various awards in recognition of our business model. For details of our other awards, please see the subsection headed "History and Group Structure — Business Milestones in Our History" in this prospectus. We also aim to further refine and promote our business model in the PRC. Since November 2010, we have collaborated with Donghua University in Shanghai, and established the DongHua Nuoqi Fast Fashion Study Centre (東華諾奇快速時尚研究中心) to conduct further studies on the development and promotion of the SPA model in the fast fashion industry in the PRC.

We have an attractive customer membership programme with an established membership database allowing us to launch products which best meet consumer preferences and conduct targeted marketing

We have an attractive customer membership programme with an established membership database. We offer membership benefits such as product discounts, fashion advice, sales previews, personal invitations to our member-only events and miscellaneous gifts (such as birthday gifts and in-house fashion magazines). We launched our customer membership programme officially in 2004 and had as at 30 June 2013 approximately 1,054,000 members registered since its establishment. We believe we are one of the few men's fashion casual wear brands in the PRC to have successfully developed a substantial member base. According to Frost & Sullivan, only a few top brands (including Cabbeen, GXG, Mark Fairwhale, Peacebird and us) in the PRC men's fashion casual wear market each has successfully established a substantial member base.

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Our large customer base provides us with a reliable source to gather useful market and customer information such as fashion trends, customer income demographics, spending patterns, sizes and preferences. We apply this information in the design and development of our new products, which we believe closely track the latest market trends and have the highest customer appeal. Our customer membership programme also allows us to customise our marketing approach to target specific customer groups through a combination of mailing, cellphone text messaging, telephone calls and website advertising, which reduce our advertising expenses as compared to general mass marketing campaigns. In 2011, we were selected as a case study in the Executive Master of Business Administration (“EMBA”) programme at the Northwestern University’s Kellogg School of Management, which was to a large extent an endorsement of the effectiveness of our customer relationship management and membership database under our customer membership programme.

We generate a significant portion of our revenue from sales to members of our customer membership programme. For the year ended 31 December 2010, 2011 and 2012 and for the six months ended 30 June 2013, we had approximately 323,000, 378,000, 483,000 and 313,000 members, respectively, who visited and purchased at our self-operated and franchised retail points, and each member has shopped with us on average for 2.45, 2.37, 2.55 and 1.63 times for each respective period and on average spent RMB436, RMB606, RMB556 and RMB686 per purchase, respectively. For the year ended 31 December 2010, 2011 and 2012 and for the six months ended 30 June 2013, retail sales to these members amounted to RMB345.1 million, RMB541.0 million, RMB685.2 million and RMB349.6 million, respectively, at our self-operated and franchised retail points, which accounted for over 80% of our total revenue from our self-operated and franchised retail points (based on retail prices net of discounts), for each respective period.

We manage our self-operated and franchised retail points on an integrated and common platform to ensure consistent branding, quality control and customer service

We started our menswear apparel retail business in 2004. Since then, we have developed a strong and proven track record in the operational management of our retail points. We have adopted a set of standard management practices for both our self-operated and franchised retail points. Our comprehensive guidelines on retail point management cover branding, visual merchandising, personnel recruiting, training and staff performance evaluation. We also have specific policies governing the use of our N&Q brand, product image and positioning, the identification and selection of store sites, decoration and renovation, and new store opening procedures. We select and appoint store managers including those working at the franchised retail points, and we require these managers to receive training in our head office before being appointed to their positions in order to ensure their compliance with our guidelines and policies. In addition, district managers of our regional offices conduct regular and random inspections of our retail points from time to time to ensure the compliance with our operating guidelines and policies. During the Track Record Period, we also engaged third-party consultants, who used mystery shoppers to evaluate the operation of the retail points and provided feedback so we could continuously improve our retail point management.

We have also developed the IEAP System, an integrated management information system, to improve the management of our supply chain and retail points. Our management information system provides us with immediate access to inventory, sales and other operational data at our self-operated and franchised retail points. As a result, we are able to make informed decisions on production planning,

sales and marketing, and inventory management based on this real-time data. Our management information system also allows us to monitor and coordinate the procurement and delivery of our inventory between our warehouses and retail points on a real time basis.

We believe that our strong supply chain and retail management capability, supported by our management information system, is highly replicable, which will allow us to quickly expand into other markets in the PRC.

We are well-positioned to capitalise on the fast-growing PRC men's fashion casual wear market due to our strategic network of self-operated and franchised retail points

The PRC men's fashion casual wear industry is a fast-growing industry. According to Frost & Sullivan, in 2012, the total retail sales value of the men's fashion casual wear market in the PRC reached RMB77.3 billion, growing at a CAGR of 15.6% from RMB43.3 billion in 2008. We believe such growth is attributable to the continuing steady growth in the PRC economy and the increase in average spending on clothing in the PRC, as well as the marketing efforts of apparel brand owners. According to Frost & Sullivan, the total retail sales value of the PRC men's fashion casual market is projected to continue to grow at an estimated CAGR of approximately 17.6% from 2012 to 2017.

We target our growth primarily in third- and fourth-tier cities in the PRC, which are expected to benefit significantly from China's rapid urbanisation. According to Frost & Sullivan, from 2008 to 2012, China's total urban population increased from 624.0 million to 711.8 million, and its urbanisation rate increased from 47.0% to 52.6%. At the same time, the income of urban residents also increased significantly. From 2008 to 2012, the per capita urban household annual disposable income increased from RMB15,780.8 to RMB24,565.0, representing a CAGR of 11.7% in this period. Ongoing urbanisation in the PRC has impacted the consumption patterns and habits of Chinese consumers. In particular, residents who have moved into urban areas from rural areas have been influenced by the consumption habits of the urban residents and have been increasingly willing to spend on clothing, including menswear. We expect to continue to benefit from China's urbanisation, as China is expected to have an urban population of 866.5 million with an urbanisation rate of 62.4% and a per capita urban household annual disposable income of RMB46,814.5 by 2017.

In order to capitalise on the opportunities in this fast growing market, we have developed a strategic network of retail points in our selected markets. During the Track Record Period, the number of retail points in our network grew from 225 as at the end of 2010, to 366, 420 and 432 at the end of 2011 and 2012 and as at 30 June 2013, respectively. The number of retail points in our network further grew to 438 as at 31 October 2013.

We believe that a strategic network comprising a mix of both self-operated and franchised retail points is critical to the success of our business. Our franchising strategy has enabled us to develop our sales network rapidly across China at a lower capital expenditure (as compared to establishing a network comprising only self-operated retail points). Our franchisees bring local market knowledge that contributes to the success of the franchised retail points in new markets. At the same time, we remain committed to the development of our self-operated retail points, which serve as model stores for our franchisees in the markets we operate in and demonstrate our commitment in a new market. Our retail network allows us to reach a wide range of customers and ensure an efficient and effective rollout of new products in our selected markets nationwide.

We have an experienced management team with a proven track record of generating growth

We have an experienced management team with extensive operational expertise and an in-depth understanding of the PRC men's fashion casual wear market. In particular, our key management personnel have, on average, around ten years' experience in the PRC apparel market, which has enabled us to successfully anticipate market trends and customer preferences when formulating our branding and development strategies. In particular, our chairman, chief executive officer and executive Director, Mr. Ding Hui, has around ten years of experience in the PRC men's fashion casual wear retail industry, and the key members of our senior management team have worked together as a team for over eight years in the PRC apparel industry. We believe that their extensive knowledge and experience have been crucial to the success of our business, including the implementation of our unique business model, by their coordinating among our design, procurement, sales and logistics teams and establishing our comprehensive sales network.

OUR STRATEGIES

We aim to maintain our growth in the PRC men's fashion casual wear market and enhance our overall competitiveness and market share. We intend to achieve our overall objectives by pursuing the following key strategic initiatives:

Expand our strategic retail network and geographical coverage of retail points

With the anticipated continuing economic growth in the PRC and the increasing purchasing power of PRC consumers, we expect to continue to see a steady growth in demand for men's fashion casual wear and other types of fashion apparel. We intend to further increase our market share by increasing our penetration in our existing markets in Eastern China, as well as expanding the geographical coverage of our retail points in other parts of China. We plan to leverage the established reputation of our brand and our strategic network of self-operated and franchised retail points. We intend to increase the number of retail points in other Chinese cities, especially in third- and fourth-tier cities in these provinces. We are also expanding to Southwestern China and Northern China. We aim to establish 58 new retail points for the two months ending 31 December 2013 and 200 new retail points in the PRC in 2014 while, at the same time, maintaining a strategic balance of both self-operated and franchised retail points.

Expand our online sales and develop an online retail platform

We believe that online retailing has significant growth potential in the PRC. We began our online sales initiative by selling a portion of our products directly through certain online retail websites. To expand the online presence of our brand and scale of business, since January 2012, we began to engage and sell our products to Shanghai Zhonggou E-Commerce Development Co. Ltd. (上海眾購電子商務發展有限公司, or "Shanghai Zhonggou"), an e-commerce distributor, which in turn markets and sells our products to consumers through online retail shops hosted on several well-known PRC online retail websites such as Taobao.com, Tmall.com and Paipai.com. Our products sold online are specially developed products, which are differentiated from the products sold in our retail points, and certain out-of-season products. The revenue from our online sales increased by RMB15.7 million from RMB169,000 for the year ended 31 December 2010 to RMB15.9 million for the year ended 31 December 2011, and further by RMB6.7 million, or 42.1%, to RMB22.6 million for the year ended 31

December 2012. The revenue from our online sales increased by RMB11.5 million, or 149.4%, from RMB7.7 million for the six months ended 30 June 2012 to RMB19.2 million for the six months ended 30 June 2013.

We plan to expand our online retail business by further developing our management information system interfacing capabilities with the major online retailers. We intend to sell our products to a third-party e-commerce company that will sell our products online through a smartphone application in the first quarter of 2014. Customers will be able to review our product collections, select their preferred products and order these products online. The application will also recommend to the customers our other products which match the style of their selected products. We also plan to conduct online promotions and extend the coverage of our customer membership program to online customers through this application. We believe this new sales initiative will enable us to increase our online sales, provide convenience to existing members, enhance our brand recognition, retain their loyalty and further expand our customer base in a cost effective manner.

Furthermore, we intend to further develop our own online sales website in 2016. We will explore and develop other viable online sales applications and initiatives and upgrade our computer software and hardware in order to provide better online sales services. We will also establish warehousing facilities and recruit experienced technical and sales personnel for our online sales business. In addition, we plan to establish strategic relationships with third-party logistics companies to facilitate the logistics aspects of our online sales business.

Expand and further diversify our product offerings

We intend to expand our product offerings in order to increase our coverage of the PRC apparel market. We plan to further leverage our competitive strengths and enhance our product design capability in order to expand our product portfolio and launch new innovative product lines. We believe that our established business model, together with our substantial customer base and strategic retail network, will continue to allow us to use the information gathered from members and retail points to design and develop new products that will cater to customer preferences and capture the latest fashion trends.

To diversify our product portfolio, we intend to introduce women's wear products. By leveraging the data from our customer membership programme, established management information system and supply chain management, we plan to first introduce the women's wear products targeting mainly at the spouses of our members from the age of 25 to 40. Based on customers' feedback and market interest, we plan to invest approximately RMB10 million of our funds generated from operation to develop this new product line and open not more than ten retail points in 2016. We believe that, by recruiting experienced designers from other well-known women's wear brands, we will have capabilities in designing and developing women's wear products to meet customers' preferences and the latest fashion trends. In addition, if we successfully launch our women's wear products, we intend to further pilot test and market children's wear products in two years thereafter.

Expand our membership database and enhance our ability to use the membership database

We believe our customer membership programme and its substantial member base offer us a significant competitive advantage, and we plan to further expand our customer base by converting a higher percentage of first time customers to join as members and ensuring the stickiness of our existing

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members. We will continue to offer additional value-added services to attract new members and retain the loyalty of existing members. We plan to offer group buying discounts to members and their families to attract more customers to join the programme.

We also plan to enhance our ability to analyse and apply our customer information in the membership database by developing more analytical data mining methods and software to obtain a more detailed breakdown and perform more sophisticated analyses of our customer information and sales data.

Our customer membership programme, as at 30 June 2013 comprising approximately 1,054,000 members registered since its establishment, also offers a captive customer base to which we are able to direct targeted marketing and sales promotion to ensure the successful launch of new product offerings.

OUR BUSINESS MODEL

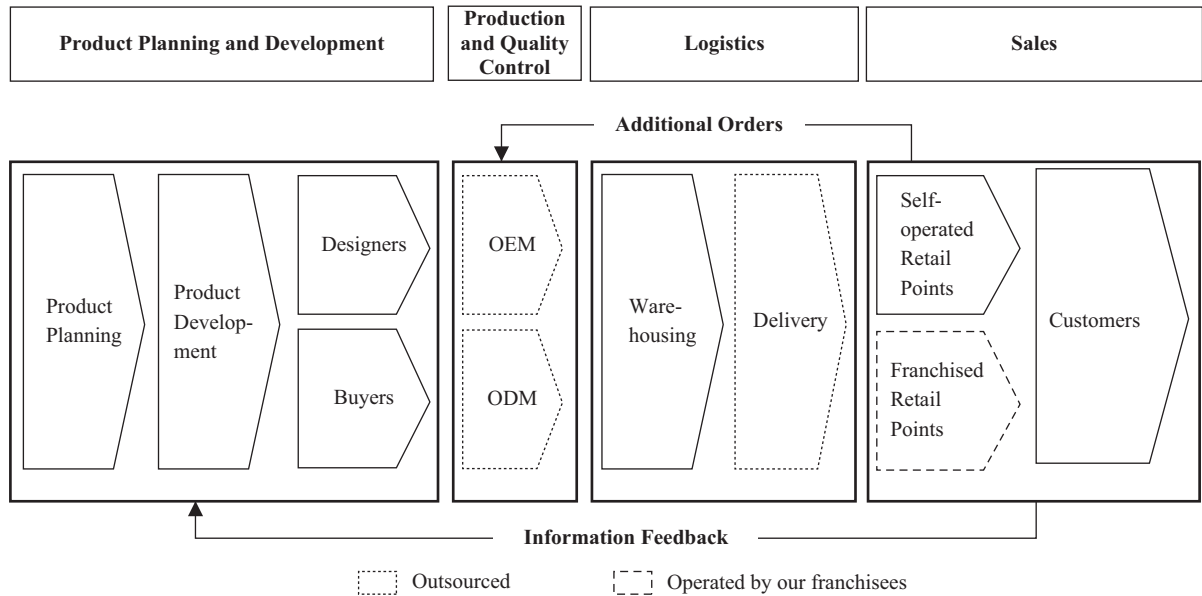
We are one of the earliest companies in the PRC to adopt a market-driven fast fashion business model that integrates key elements of the SPA model, which is adopted by various international fast fashion apparel retailers. The SPA model focuses on the management of retail points and integration of key components of the retail and supply chain, such as product planning and design, production and sales, to identify the latest fashion trends and customer preferences in order to quickly design, develop and bring new commercially viable and popular products to market.

Under our business model, we develop and promote our strong customer membership programme to collect useful consumer information, such as spending history and preferences, from our substantial membership base across our self-operated and franchised retail points, all of which are under our direct management and linked to our management information system. By analysing this consumer information and applying such information in our product design and development, we are able to better understand the latest market needs and changing consumer trends and quickly develop new fashionable products.

Our business model also provides more flexibility in terms of product ordering and allows our retail points to order products in smaller batches throughout the season according to the market demand, as opposed to placing a single large order pre-season. To complement our product batch order system, under our business model, we typically plan to procure approximately 60% of our total estimated demand ahead of the upcoming season, approximately 20% during the season itself for our more popular products and products with potential sales growth based on actual consumer demand, and another approximately 20% for our best-selling products and products modified from existing best-selling products with new supplementary features in order to capture strong market demand. As a result of our ability to effectively manage our outsourced production process and monitor customer sales at retail points under our management information system, our procurement model ensures that our products closely track real customer demand. It also allows us to reduce the risk of excessive inventory.

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The following diagramme illustrates our business model:



Our business model generally comprises the following steps:

Product Planning and Development

- We prepare product development plans based on an analysis of the latest fashion trends, current market conditions, our sales data and feedback and the information from our members.
- Based on the product development plans, we create and design new product collections to be launched in the coming season and ascertain details such as the wholesale and retail prices, timing of launches and production planning and delivery.
- We design our basic product models that we believe to be truly unique to our brand. For our self-designed products, we engage third-party OEMs by giving them the product designs with specific instructions such as styles, apparel types, sizes, manufacture process requirements and types of raw materials to be used.
- At the same time, we also collaborate closely with ODMs to create and develop designs for other products which are complementary to our new product collections. The ODMs will commence production based on our requirements and the delivery schedule approved by us.

Production and Quality Control

- We place orders to procure finished products that account for approximately 60% of our estimated demand ahead of the upcoming season, and we strictly control the production process to ensure product quality and timely delivery.

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Logistics

- Quality control staff at our warehouses receive and re-examine the finished products, which are then recorded in our management information system. We deliver the products to our self-operated retail points based on our sales plans, or to franchised retail points based on the orders placed by them.

Sales

- We place orders during the season itself for an additional approximately 20% for our more popular products and products with potential sales growth based on actual consumer demand and orders for an additional approximately 20% for our best-selling products and products modified from existing best-selling products with new supplementary features in order to capture strong market demand.
- We monitor and analyse sales data and make real-time adjustments on procurement and delivery in order to reduce inventory risk, and we compile a customer information database which we analyse and apply in product design and development, customer services, and sales and marketing activities.

OUR BRAND

We launched our own branded apparel under the N&Q brand in 2008. We target customers who are primarily young and middle-aged men from the age of 25 to 40 in the PRC. Our goal is to rapidly produce fashionable apparel that are affordable by the mass market consumers, which is reflected in our business motto “Let Fashion Have No Distance” (讓時尚沒有距離). As such, our brand is designed to convey a sense of value and simplicity that tracks the popular fashion trends.

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PRODUCTS

Our products include jackets, sweaters, shirts, T-shirts, trousers, shoes and accessories. Most of our product collections are fashion casual wear designed for casual and leisure occasions. Some of our product collections are fashion business wear designed for more formal occasions.

The following are examples of our major products:



The table below shows the retail price range of our products in RMB as at 30 June 2013:

	RMB
Apparel	168 to 989
Footwear	228 to 699
Accessories	18 to 498

PRODUCT PLANNING AND DEVELOPMENT

Our business comprises two major sectors of product and sales. With respect to the product sector, we have established our product management centre in the head office which is under direct supervision of the chief executive officer. Our product management centre manages five departments which provide different functions of product design, product research and development, procurement, production technology and production management.

Product Design and Development

Under our business model, we design and develop new product collections based on our analysis of the latest fashion trends, current market conditions, our sales data and feedback and the information from our members. We closely track the world's latest fashion trends and each year our management hold meetings in March before the coming spring and summer season and in September before the coming fall and winter season to discuss customers' preferences and changing demands. We also analyse the information provided by our members at the retail points by segmenting the sample pool of customers and members and the information that relates specifically to each group in order to identify popular and successful products, price ranges, the number of product collections and the product designs to be launched and other important business considerations for the coming season.

Our design team is currently based in Shanghai and is led by our product design director, Mr. Zhou Wei (周璋), who possesses seven years of experience in fashion design. As at 31 October 2013, our in-house product design team had 55 members with an average of work experience of approximately ten years in fashion design in the PRC and 26 of them have obtained college and equivalent level degrees.

Our product development committee is responsible for the design and creation of new product collections. The committee is chaired by Mr. Ding Hui and comprises senior members of our management who are responsible for product design and development, sales, product display and sales monitoring, as well as a number of senior store managers. Our product development committee will review development plans prepared by the product design and development department of our product management centre containing details of new product collections for a particular season approximately six months before that season starts. Under this plan, the product development committee evaluates product designs and selects complementary product designs to form proposed seasonal collections. Internal meetings will then be held and our experienced sales staff and store managers of our regional offices will be invited to further evaluate the proposed product collections and designs. Based on these meetings, the product development committee selects the final product collections and designs to be launched in the coming season and determines the wholesale and retail prices, and timing of launches.

Outsourced Production and Design

As part of our production plan, we engage third-party OEMs to manufacture new products of apparel, footwear and accessories by providing them with our product designs with specific instructions as to styles, apparel types, sizes, manufacture process requirements and types of materials to be used. At the same time, we also collaborate with selected ODMs to jointly develop product designs that are compatible with our new product collections for the coming season. Our design team works closely with our ODMs on product design and development by reviewing and revising draft designs and product samples in order to produce final product designs for production. We pay ODMs costs of outsourced design and production under relevant agreements and do not share any product design and development cost incurred by them. Based on the final product designs approved by us, ODMs manufacture new products of apparel, footwear and accessories.

Some of our third-party manufacturers have requisite qualifications and capabilities for both OEM and ODM. As such, we may engage a third-party manufacturer as OEM to manufacture certain batches of self-designed products while engaging the same manufacturer as ODM to jointly design and develop other batches of new products and manufacture accordingly. We believe this combination of self-

designed OEM products and outsourced designed ODM products enables us to control the design and development process more effectively and enhances our ability to rapidly produce a wider range of new products to meet changing consumer demands.

Research and Development

We aim to further refine and promote our business model in the PRC. Since November 2010, we have collaborated with the Fashion Institute of Design of Donghua University (東華大學服裝學院) in Shanghai and established the Donghua Nuoqi Fast Fashion Study Centre (東華諾奇快速時尚研究中心) to conduct further studies on the development and promotion of the SPA model in the fast fashion industry in the PRC. The research centre is located in Donghua University's campus and chaired by Mr. Ding Hui. The professors and staff members of the Donghua Nuoqi Fast Fashion Study Centre collaborate with us to conduct the research work. The research centre also organises, or arranges for its members to attend fast fashion-related conferences and events. The research centre may also recommend outstanding students to intern with us.

We entered into a collaboration agreement with Donghua University for a term of three years. We agreed to contribute RMB2.0 million in total for relevant research uses under the agreement. Based on our research results, we have prepared reports each quarter mainly on the development of and major factors affecting the fast fashion industry. Under the terms of the cooperative agreement, research results are owned by both parties and upon expiry of the cooperative agreement, either party is not allowed to transfer any research result to a third party without the other party's consent.

Shanghai Product Centre

We plan to construct a product centre to centralise staff, functions and other resources relating to product design and development, procurement and quality control in Shanghai, which we believe is the centre of fashion development in the PRC. Our product centre manages four departments which provide different functions of product design and development, research and development, production technology, market and consumer information, and general administration. The Phase I construction of our product centre is expected to be completed by June 2015.

We intend to improve our design and development efficiency and capabilities through purchasing new advanced equipment, hiring more staff, providing more trainings to our in-house product design team and recruiting reputable experienced designers. With establishment of the research and development part of our product centre, we believe we will be able to leverage our knowledge of market trends and customer preferences and enhance our product design and development capabilities to transform innovative product concepts into commercially viable and popular products in an efficient and effective manner.

We will continue to work with ODMs on design of certain products but will gradually reduce our reliance on them. In addition, our existing staff, departments and other resources relating to product procurement and quality control in Quanzhou, Fujian province will also be centralised in our product centre in Shanghai.

PROCUREMENT MANAGEMENT**Procurement**

In order to focus on our core strengths in product development, retail management and brand promotion, we outsource all of our production to third-party manufacturers. In addition, by drawing upon our established relationships with a network of third-party manufacturers, we are able to identify and engage manufacturers which we believe are well suited for the production of particular types of products in terms of experience, cost-efficiency and delivery time.

Our business model provides more flexibility in terms of product ordering and allows our retail points to order products in smaller batches throughout the season, as opposed to placing a single large order pre-season, in order to meet estimated customer demand. To complement our product batch order system, under our business model, we typically plan to procure approximately 60% of our total estimated demand ahead of the upcoming season, approximately 20% during the season itself for our more popular products and products with potential sales growth based on actual consumer demand, and another approximately 20% for our best-selling products and products modified from existing best-selling products with new supplementary features, in order to capture strong market demand. As a result of our ability to effectively manage our outsourced production process and monitor customer sales at retail points under our management information system, our procurement model ensures that our products closely track real customer demand. It also allows us to reduce the risk of excessive inventory.

The production management department of our product management centre is responsible for the selection of third-party manufacturers and monitoring the outsourced production process. Once we have entered into agreements with the third-party manufacturers, we place orders for specific batches of products with prices, sizes, quantities, colours, delivery dates and other specific terms to the manufacturers. The third-party manufacturers are required to send us product samples for approval and finally confirm the style, colour, manufacture process, specifications and sizes of the product design with us before commencing production. We monitor their performance by sending quality control staff to track the progress of production and examining the quality of their products. Upon the end of each season, we re-evaluate the performance of each manufacturer and give priority for order placement in the next season to manufacturers that achieve better performance standards. The finished products are delivered to our warehouses, where our quality control staff will again examine the quantity and quality of the products. Products that fail our quality tests are returned to the third-party manufacturers.

We also procure from third-party suppliers certain auxiliary materials for our products, such as zippers, woven wheat, buttons, tags and our brand logos.

Our Procurement Process

Generally one month after we launch new product collections, we rank all products in term of sales revenue and sales volume and select the more popular or best-selling products which ranked top 20% within each major product category for the upcoming season. During the whole season, we continuously monitor the product sales data, update the list of best-selling products and analyse such information for better understanding of the current market trend and future product design and development.

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Based on our product batch ordering system, after we initially procure approximately 60% of our total estimated demand for products we plan to launch for the upcoming season, we typically place more orders for approximately 20% of products which mainly include more popular products and products which we perceive consumer will have continuing demand for during the season itself, taking into account actual consumer demand and potential sales growth. Closer to the end of the season, we place more orders for another approximately 20% for our best-selling products and products that are modified from existing best-selling products with new supplementary features, in order to capture strong market demand for these products.

Suppliers

Our suppliers are third-party manufacturers to whom we outsource the production of our products. All of our suppliers are located in the PRC. We invite third-party manufacturers to submit bids for manufacture of our products based on a number of factors, such as costs, production capacity, product quality, quality control, business track record, timing of delivery, product design and management capabilities and reputation.

We generally place purchase orders with ODMs and OEMs for our procurement. We also enter into master agreements with them for a term of one year with the general guidelines for purchases during that term. The purchase orders generally include the following principal terms:

- **Quality standards:** The quality and product standards must comply with our specifications, the national standards, or industry standards if there are no applicable national standards, unless both parties agree otherwise.
- **Delivery:** The third-party manufacturers are responsible for delivery of the products to our warehouses, and they bear the risk of any loss during transportation to our warehouses and when we return any defective products to them.
- **Product return:** We have the right to return any product that fails to meet the prescribed quality standards within 15 days from acceptance of the products free of any charges.
- **Payment:** We are generally required to make a prepayment of approximately 30% of the purchase prices to procure the service of our third-party manufacturers. Furthermore, we are required to make a second payment of approximately 60% of the purchase prices upon delivery. We are generally granted a credit period ranging from 30 to 60 days upon delivery, during which we are mostly required to make a final quality assurance payment of the remaining 10% of the purchase price.

The materials required for manufacturing our products are primarily cotton, natural fibre and chemical fibre. Third-party manufacturers are responsible for the purchase of raw materials and therefore bear potential risks relating to price fluctuation of raw materials, save for auxiliary materials with our logo labels which we provide or instruct them to procure from specific suppliers. We may give specific instructions to our third-party manufacturers to use the raw materials provided by certain suppliers if we believe the types, qualities and prices of the materials provided by these suppliers meet our requirements and needs. The third-party manufacturers may also make recommendations on the types or suppliers of materials to us. In the event that prices of raw materials rise, the third-party manufacturers may charge higher fees for the production of next batch and we are indirectly subject to price risks of raw materials,

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although the fees paid to third-party manufacturers with respect to each purchase order are generally at a fixed rate. Furthermore, we generally bear the liability relating to products after our acceptance of product deliveries, except when we return the products due to product quality issue.

Our staff at the production management department regularly visit OEMs and ODMs, review regularly production-related matters (including production capacities and schedules) and make advanced production planning accordingly. Our Directors believe that we have established a well-recognised credibility among OEMs and ODMs and mutually beneficial long-term relationships with them over the years, although we generally place purchase orders and enter into one-year master agreements with them.

Furthermore, our Directors believe that we have a wide range of choices for third-party manufacturers and can easily find a new supplier or replacement with suitable qualification within a short period of time to meet our production need.

During the Track Record Period, we have not encountered any material disruption to our business as a result of the failure to obtain products from third-party manufacturers. We have not experienced and do not envisage that we will experience any material difficulties in obtaining products from third-party manufacturers. We are not aware of any violation by our third-party manufacturers of applicable laws and regulations in material aspects.

As at 31 December 2010, 2011 and 2012 and 30 June 2013, we engaged 152, 153, 147 and 109 third-party manufacturers, respectively. All of our third-party manufacturers are Independent Third Parties. For the year ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013, purchases from our single largest supplier accounted for approximately 9.9%, 5.1%, 6.6% and 6.7%, respectively, of our total cost of sales. For the same periods, purchases from our five largest suppliers accounted for approximately 31.3%, 21.1%, 22.4% and 25.6%, respectively, of our total cost of sales. Our five largest suppliers are mostly located in Fujian province and Guangdong province and are companies with established records in the garment industry. They have supplied products to us for three to five years.

Most of our third-party manufacturers are located in the provinces of Guangdong and Fujian. To the best knowledge of our Directors, none of our Directors, their associates or any of our shareholders who hold more than 5% of our issued capital, had any interests in any of our five largest suppliers during the Track Record Period.

QUALITY CONTROL

We are focused on quality control of our products and have established strict quality control systems and standards to ensure that the quality of our products meets the expectations of our customers. We have established quality control systems and standards for the selection of third-party suppliers and raw materials and for the inspection of production premises in line with national standards and applicable legal requirements.

We implement quality control procedures on raw materials selection, production monitoring and examination of finished products. We provide specific instructions to the third-party manufacturers on the types of materials to be used when placing orders, and the third-party manufacturers are required to send us samples of raw materials for our approval and confirm the style and model of the final design with us before commencing production. We periodically conduct on-site inspections of the third-party manufacturers' production premises on a sampling basis.

When the finished products are delivered to our warehouses, we test the quality and functionality of each batch of finished products on a sampling basis to ensure that these finished products meet our standards. We have adopted the Acceptable Quality Level ("AQL") 4.0 quality inspection standards, which are widely accepted and used internationally in the garment industry, to examine the quality of the finished products. We first determine our number of sample products with reference to size of the product batch based on the requirements under the AQL 4.0 quality inspection standards. We then take the sample products and check the appearance, materials, accessories, sewing work, shape, size, shrink, colour fastness and label of each sample product by examining the key points (such as collar length and width, sleeve cuff opening and waistline) and non-key points (such as inside waistline). Based on the number of acceptable or rejected sample products, we determine whether the product batch passes or fails the standards. When the number of rejected sample products in a product batch is outside the reference range, we return the product batch to the third-party manufacturers which must recheck the product batch and repair defective products. With the stringent requirements under the AQL 4.0 quality inspection standards, we have ensured high quality of our products. Our Directors believe that we fulfilled the AQL 4.0 quality inspection standards with respect to finished products during the Track Record Period.

Any products identified which do not meet our quality standards are returned to the relevant third-party manufacturers. Pursuant to terms of the standard agreement, ODMs and OEMs shall exchange or repair defective products at any time within seven days after our return and deliver new products to the locations as we instruct. In the event that they fail to complete within the prescribed time limit, they are liable to compensate us for all the damages and losses. In addition, in the event that the total number of days for certain product batch returned in multiple times exceeds seven days, ODMs and OEMs are liable to compensate us for all the damages and losses (including but not limited to cost of raw materials and cost of auxiliary materials). During the Track Record Period, we have not experienced any quality issues, shortages or delays in the delivery of finished products from our third-party manufacturers nor did we experience any material claims or significant sales returns from consumers or franchisees for defective products. During the Track Record Period, we did not return any products, which we had accepted, to third-party manufactures as we strictly enforced our product inspection before acceptance in accordance with the AQL 4.0 quality inspection standards and our internal requirements.

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Our production management department is responsible for overseeing quality control of our products. The department had 16 staff members as at 31 October 2013, including those working in the regional offices.

SALES

Retail Network

In order to capitalise on the opportunities in the fast growing PRC men's fashion casual wear market, we have developed a strategic network of retail points in our selected markets. As at 31 October 2013, our network of retail points comprised a total of 225 self-operated retail points and 213 franchised retail points. Our self-operated retail points comprise department store concession counters, stand-alone stores and stores under cooperative arrangement. During the Track Record Period, the number of retail points in our network grew from 225, as at the end of 2010, to 366, 420 and 432 at the end of 2011 and 2012 and as at 30 June 2013, respectively.

We believe that a network comprising a mix of both self-operated and franchised retail points is critical to the success of our business. Our franchising strategy has enabled us to develop our sales network rapidly across China at a lower capital expenditure, as compared to establishing a network comprising only of self-operated retail points. Our franchisees bring local market knowledge that contributes to the success of our retail points in new markets. At the same time, we remain committed to the development of our self-operated retail points, which serve as model stores for our franchisees in the markets we operate in and demonstrate our commitment in new markets. Our retail network allows us to reach a wide range of customers and ensures an efficient and effective rollout of new products in our selected markets nationwide.

We determine whether to open a self-operated retail point or franchised retail point on a case-by-case basis. To minimise competition among our self-operated retail points and franchised retail points in any particular area, we assess market conditions such as the size and saturation of the market, purchasing power of target consumers and levels of competition, and we collaborate with the potential franchisees to identify and agree on the suitable locations to be opened in the area.

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Our revenue primarily comprises revenue from retail sales to end customers at our self-operated retail points and revenue from wholesale sales to franchisees at discounts to retail prices, which in turn sell our products to end customers through their retail points. Set out below is a breakdown of our retail revenue and wholesale revenue by province, the percentage of each of such revenue to our total retail and wholesale revenue, and the number of our retail points by province and by type for the indicated periods:

	Year ended 31 December									Six months ended 30 June		
	2010			2011			2012			2013		
	Self-operated retail points	Franchised retail points	Total	Self-operated retail points	Franchised retail points	Total	Self-operated retail points	Franchised retail points	Total	Self-operated retail points	Franchised retail points	Total
<i>Fujian</i>												
Revenue (RMB'000) . . .	84,385	73,341	157,726	88,672	82,359	171,031	88,823	94,059	182,882	41,958	49,145	91,103
% of total	62.8%	39.5%	49.2%	52.5%	29.2%	37.9%	42.3%	27.8%	33.3%	34.5%	28.1%	30.8%
Number of retail points .	30	45	75	30	46	76	29	51	80	27	53	80
<i>Jiangsu</i>												
Revenue (RMB'000) . . .	6,044	34,943	40,987	7,749	56,438	64,187	15,759	67,545	83,304	13,939	33,273	47,212
% of total	4.5%	18.8%	12.8%	4.6%	20.0%	14.2%	7.5%	20.0%	15.2%	11.5%	19.0%	15.9%
Number of retail points .	8	27	35	15	43	58	22	43	65	27	43	70
<i>Anhui</i>												
Revenue (RMB'000) . . .	6,502	16,857	23,359	9,779	30,553	40,332	12,976	43,442	56,418	5,592	28,746	34,338
% of total	4.8%	9.1%	7.3%	5.8%	10.8%	8.9%	6.2%	12.8%	10.3%	4.6%	16.5%	11.6%
Number of retail points .	4	23	27	7	29	36	12	37	49	12	42	54
<i>Jiangxi</i>												
Revenue (RMB'000) . . .	26,523	16,201	42,724	31,798	19,654	51,452	32,756	22,570	55,326	15,818	11,957	27,775
% of total	19.7%	8.7%	13.3%	18.8%	7.0%	7.4%	15.6%	6.7%	10.1%	13.0%	6.8%	9.4%
Number of retail points .	12	9	21	12	14	26	13	15	28	14	15	29
<i>Shandong</i>												
Revenue (RMB'000) . . .	1,088	5,684	6,772	9,328	8,443	17,771	22,438	12,032	34,470	15,653	5,557	21,210
% of total	0.8%	3.1%	2.1%	5.5%	3.0%	3.9%	10.7%	3.6%	6.3%	12.9%	3.2%	7.2%
Number of retail points .	16	4	20	62	8	70	60	8	68	59	7	66
<i>Sichuan/Chongqing</i>												
Revenue (RMB'000) . . .	437	3,060	3,497	4,959	16,072	21,031	8,310	14,741	23,051	2,860	7,683	10,543
% of total	0.3%	1.6%	1.1%	2.9%	5.7%	4.7%	4.0%	4.4%	4.2%	2.4%	4.4%	3.6%
Number of retail points .	3	4	7	3	12	15	4	9	13	4	10	14
<i>Hubei</i>												
Revenue (RMB'000) . . .	—	1,526	1,526	—	14,904	14,904	1,018	17,490	18,508	1,288	7,351	8,639
% of total	—	0.8%	0.8%	—	5.3%	5.3%	0.5%	5.2%	3.4%	1.1%	4.2%	2.9%
Number of retail points .	—	3	3	—	16	16	3	12	15	3	11	14
<i>Hunan</i>												
Revenue (RMB'000) . . .	6,529	5,248	11,777	7,904	7,505	15,409	8,066	8,472	16,538	3,993	4,200	8,193
% of total	4.9%	2.8%	3.7%	4.7%	2.7%	3.4%	3.8%	2.5%	3.0%	3.3%	2.4%	2.8%
Number of retail points .	3	4	7	3	5	8	3	5	8	3	5	8
<i>Henan</i>												
Revenue (RMB'000) . . .	434	7,917	8,351	2,481	12,198	14,679	2,392	10,511	12,903	2,342	4,223	6,565
% of total	0.3%	4.3%	2.6%	1.5%	4.3%	3.3%	1.1%	3.1%	2.4%	1.9%	2.4%	2.2%
Number of retail points .	3	10	13	1	10	11	3	9	12	4	7	11
<i>Shanghai</i>												
Revenue (RMB'000) . . .	—	8,144	8,144	—	9,274	9,274	124	11,406	11,530	353	5,454	5,807
% of total	—	4.4%	4.4%	—	3.3%	3.3%	0.1%	3.4%	2.1%	0.3%	3.1%	2.0%
Number of retail points .	—	4	4	—	4	4	1	6	7	1	5	6
<i>Others</i>												
Revenue (RMB'000) . . .	2,423	12,979	15,402	6,197	24,705	30,902	17,349	36,193	53,542	17,728	17,111	34,839
% of total	1.8%	7.0%	4.8%	3.7%	8.8%	6.9%	8.3%	10.7%	9.8%	14.6%	9.8%	11.8%
Number of retail points .	5	8	13	22	24	46	48	27	75	56	24	80
Total												
Revenue (RMB'000) . .	134,365	185,900	320,265	168,867	282,105	450,972	210,011	338,461	548,472	121,524	174,700	296,224
Number of retail points	84	141	225	155	211	366	198	222	420	210	222	432

Store Operation

We have established a standardised management system for our self-operated retail points and franchised retail points. We have extensive guidelines covering store operation, personnel recruiting, training and performance monitoring, and we also have specific policies governing the identification and selection of store sites, decoration and renovation, new store opening, store operation, personnel recruiting, training, store monitoring and performance evaluation. Among these guidelines and policies, our store operation policies and manual provide specific standards and requirements covering various aspects of the operation of our stores. With respect to each position at a retail point, we have the specific requirements of job responsibilities, monthly, weekly and daily key tasks to be completed, operation procedure and standards, and staff management measures to ensure the strong control and proper management of our sales network. Our employees are required to serve our customers in compliance with the conduct and dressing code and handle customer complaints in accordance with the requisite procedure. Stock replenishment, quality inspection upon product delivery, inventory levels and inventory count must be conducted according to our standardized practice. We have also implemented strict measures and procedures in respect of cash control, store sanitary conditions, work safety at each retail point, management of members and store promotion. We also have specific requirements as to lighting, music and air temperature at the retail points.

We have established our sales management centre in the head office which directly supervises regional offices in different locations and manages the operations of our retail points. A general manager, who is appointed by the head office to each regional office, manages district managers under his direct supervision. Each district manager, who generally covers a district that contains 10 to 15 retail points, is responsible for supervising the daily operation, inventory and supplies of the retail points, providing training and management guidance to store managers, and evaluating the performance of each store manager under his supervision.

Our sales management centre in the head office recruits and appoints store managers and district managers who implement a set of standard management practice for our retail points and monitor the daily operations. We have provided consistent trainings to our store managers and district managers and have proactively identified talented employees who perform well and are expected to have a long-term career path with us as we expand our business. We have promoted these employees into our management team. We believe these measures help us motivate our employees, preserve our operational consistency and promote our corporate culture. We may also recruit externally qualified and experienced candidates who meet our requirements for relevant positions.

Furthermore, we have established another nine departments in the head office under our sales management centre, which provide retail points with different supporting functions of centralised customer service, logistics, sales display, market monitoring, operation management, market development, training, and branding. The centralised customer service department is responsible for maintaining relationships with our members by keeping member profiles and initiating frequent contacts with members. The logistics department monitors the sales and inventory levels of each retail point and directs the movement of inventories from the warehouses to the retail points to enhance our overall sales performance.

We evaluate the performance of retail points in each region annually, and we devise the strategic plans and various annual targets for these retail points based on our evaluation and periodically adjust our sales strategies based on the feedback from the retail points.

Operation Monitoring

The market monitoring department of our sales management centre is responsible for the implementation of our store inspection guidelines and for monitoring the operations of all retail points. As at 31 October 2013, our market monitoring department had 15 staff members, all of which worked in our regional offices. Our detailed inspection guidelines set forth more than 150 items to be examined with specific standards during the inspection processes for each retail point. The remuneration of our store managers and district managers are directly tied to results of the inspections.

Our Point of Sale (“POS”) system is implemented at our self-operated and franchised retail points and connected to our management information system, through which we are able to monitor the movement and level of inventories and sales status at these retail points.

We primarily use the following measures to ensure that the retail points comply with our operational guidelines including uniform selling prices:

- ***Store supervision.*** Our general policy is to select and recruit store managers for all self-operated and franchised retail points. Each store manager supervises the daily operation of his retail point and is responsible for ensuring that store operations comply with the relevant standards. They also periodically report the operating conditions of his retail point to our head or regional offices.
- ***Remote supervision.*** Each retail point, with the exception of a few department store concession counters, has a surveillance video and a computer system in store connected with our management information system, which allows us to observe and monitor its operations in real time.
- ***Periodic and ad-hoc inspections.*** District managers of our regional offices closely monitor the performance of the retail points in their regions. Our district managers periodically visit and inspect each retail point, sometimes unannounced and on an ad-hoc basis, and upon finding any non-compliance require the store manager to make rectifications in accordance with our guidelines and policies.
- ***Mystery shopping.*** We engaged third-party consultants, which used mystery shoppers to visit and evaluate the performance of our retail points. We have used the feedback from these third-party consultants to enhance our management of the retail points. As at 31 October 2013, we had engaged two third-party consultants, both of which are experienced market consulting agencies located in Beijing, to provide consulting services to us.

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Retail Points

The following table sets out the number of retail points opened and closed during the periods indicated:

	Year ended 31 December									Six months ended 30 June			
	2010			2011			2012			2013			
	At the beginning of the period	Opened during the period	Closed during the period	At the end of the period	Opened during the period	Closed during the period	At the end of the period	Opened during the period	Closed during the period	At the end of the period	Opened during the period	Closed during the period	At the end of the period
Self-operated retail points . . .	50	35	(1)	84	83	(12)	155	56	(13)	198	25	(13)	210
Franchised retail points. . . .	68	76	(3)	141	91	(21)	211	35	(24)	222	23	(23)	222
Total	<u>118</u>	<u>111</u>	<u>(4)</u>	<u>225</u>	<u>174</u>	<u>(33)</u>	<u>366</u>	<u>91</u>	<u>(37)</u>	<u>420</u>	<u>48</u>	<u>(36)</u>	<u>432</u>

Our self-operated retail points comprise stand-alone stores, department store concession counters and stores under cooperative arrangement. The stand-alone stores and the stores under cooperative arrangement are mainly street stores which are typically located at streets in commercial and shopping districts with high pedestrian traffic, densely populated communities and business districts, as well as shopping malls. The department store concession counters are located in major department stores in premium shopping districts with well-established customer traffic and a good reputation in various cities in the PRC.

We open self-operated retail points to serve as model stores for our franchisees in the cities where we operate and to demonstrate our commitment in new markets. We appoint franchisees to open retail points in order to leverage their local market knowledge, which is critical to the success of our retail points in new markets. We generally determine whether to close a retail point based on the profitability of the retail point. We typically will close a self-operated retail point, or advise a franchisee to close the relevant franchised retail point and terminate the relevant franchisee agreement, if the retail point is not profitable after one full year of operation and if it is unlikely that the retail point will achieve profitability in the near term.

Self-operated Retail Points

As at 31 December 2010, 2011, 2012, and 30 June 2013, and as at 31 October 2013, we had 84, 155, 198, 210 and 225 self-operated retail points, respectively. Of the 225 self-operated retail points as at 31 October 2013, 163 were department store concession counters, 49 were stand-alone stores, 13 were stores under cooperative arrangement. For our self-operated stand-alone stores, we typically enter into leases with the landlords, under which a fixed amount of rent is payable.

Department Store Concession Counters

As part of our strategic plan to expand our sales network in Southwestern and Northern China, we have opened more department store concession counters there taking advantage of the relatively lower initial set-up cost compared to that of stand-alone store, although the average revenue per department store concession counter was generally lower than average revenue per stand-alone store during the Track Record Period. For the year ended 31 December 2012, the average cost of establishing a department store concession counter (including capital expenditure for store decoration and renovation as well as initial inventories) was approximately RMB294,000, compared to that of approximately RMB1.5 million for establishing a stand-alone store (including capital expenditure for store decoration

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and renovation, rental expenses and initial inventories). See the subsection headed “Financial Information — Description of the Major Components of Our Results of Operations — Revenue” in this prospectus for further discussion on average revenue per store.

We enter into concession agreements with department stores and pay on a monthly basis concession fees, which are calculated as certain percentages of the gross sale proceeds of the relevant department store concession counters. These concession agreements generally have terms of one year. Specific terms of the respective concession agreements vary from department store to department store, which usually include the term, premises, sales management, concession fees, commodity administration, personnel hiring and management, promotion management and financial settlement. Sales proceeds from our department store concession counters are received first by the department stores, and we collect monthly these proceeds net of the concession fees, promotional costs and other applicable fees and expenses charged by the department stores. For the year ended 31 December 2010, 2011 and 2012 and for the six months ended 30 June 2012 and 2013, the amount of concession fees we paid to department stores was RMB1.4 million, RMB8.3 million, RMB21.4 million, RMB9.6 million and RMB20.2 million, respectively. None of the concession agreements were terminated by any department store during the Track Record Period.

Some of the department stores may impose a minimum monthly sales requirement on us, and they have the right to terminate the concession agreements if we fail to meet such requirement for a consecutive period of time. During the Track Record Period, we did not meet the minimum monthly sales requirements under the concession agreements with 55 department stores as we established new department store concession counters in new markets and customers there need time to recognise our brand and products. Pursuant to the terms of the relevant concession agreements, in the event that we did not meet such requirements, we are required to pay each of these department stores certain amount (calculated by applying an agreed percentage to the difference between the minimum monthly sales requirement and the actual revenue of relevant department store concession counter) and offset such amount against the actual revenue. The amount which would be required to be offset against the actual revenues of relevant department store concession counters due to our failure to meet the minimum monthly sales requirement is generally grouped with other expenses and fees that these department stores required us to pay. Based on the above calculation, the aggregate estimated amounts would be approximately RMB190,000, RMB956,000, RMB1.7 million and RMB603,000 for the year ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013, respectively. With respect to the minimum monthly sales requirements imposed by the department stores, all relevant concession agreements that we had entered into in 2010 and 2011 expired and most concession agreements that we had entered into in 2012 also expired. Based on this fact and in view of the insignificant amounts as estimated above, including those that would be required to be offset against the actual revenues of relevant department store concession counters during the Track Record Period, our Directors are of view that these aggregate estimated amounts would not have any material impact to our financial condition and results of operations. In addition, our Directors are of the view that as our products become more mature and recognised in these new markets, the difference between the minimum monthly sales requirements and the actual revenues in respect of these department store concession counters will gradually decrease and the amounts that we would be required to pay to the relevant department stores will decrease accordingly going forward.

Stores under Cooperative Arrangement

As part of our strategic plan to expand our sales network across China, we have entered into cooperative agreements with third-party partners to establish stores under cooperative arrangement. Under the terms of cooperative agreements, we generally share the set-up cost equally with third-party partners and they bear rental expenses and all operational expenses. The initial set-up cost, rental expenses and operational expenses of store under cooperative arrangement are relatively lower as compared to those of stand-alone store. In addition, we can take advantage of the local knowledge and network of third-party partners to expand our sales network in cities where we currently have no or limited presence but there is significant growth potential. Overall, we are able to expand our sales network of stores under cooperative arrangement in new markets with less capital expenditure and benefiting from third-party partners' local knowledge and network. As at 31 October 2013, we had established 13 stores under cooperative arrangement, which commenced operation in June 2013. The revenue from these stores operating under cooperative arrangement since their commencement of operation in June 2013 was RMB175,000 for the six months ended 30 June 2013.

The third-party partners are individuals and entities with relevant retail experience, local network and/or resources. Similar to our policy in opening franchised retail points, we generally select the partners that have relevant retail experience and can bring in local knowledge, network and resources.

The cooperative agreements that we have entered into with the third-party partners generally have terms of three years and typically include specific terms such as premises, sales management, personnel recruitment and management, promotion management, management commission, profit sharing and financial settlement.

Pursuant to terms of the cooperative agreements and consistent with our standard management practices for our self-operated retail points, we select and appoint store managers who supervise the daily operations of stores under cooperative arrangement and are responsible for ensuring that store operations comply with the relevant standards. Similar to our franchised retail points, the store managers are our employees and receive their remuneration from us, while other employees are hired by and receive remuneration from the third-party partners. All stores under cooperative arrangement are connected to our management information system. Through such measures, we are able to maintain strong control over management of these retail points.

The principal terms of cooperative agreements are summarised below:

- **Revenue recognition.** Similar to stand-alone store and department store concession counter, we recognise revenue when products are sold to end customers at our stores under cooperative arrangement.
- **Inventory ownership.** We retain the ownership in inventory for stores under cooperative arrangement.
- **Set-up cost.** We generally share equally with third-party partners the set-up cost of newly established stores under cooperative arrangement.

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- **Rental and operational expenses.** Third-party partners bear rental expenses and all operational expenses.
- **Profit sharing.** We generally share with our third-party partners an agreed percentage (with our share ranging from 50% to 80%) of the store revenue generated from product sales. We do not share any loss incurred with third-party partners.
- **Management commission.** Similar to franchised retail points, we receive from third-party partners on a monthly basis management commission, which is calculated as certain percentage of the store annual revenue. The management commission is initially estimated with reference to the store monthly revenue and adjusted in each year according to the store actual annual revenue for that year. The percentage is gradually reduced to 0.3% from 2.5% depending on the store actual annual revenue for calculation of the management commission.

Franchised Retail Points

We commenced our franchising business model and established our first franchised retail point in 2008. We engage franchisees to leverage their local market knowledge and expand our sales network rapidly across China. The franchisees are individuals and corporate entities with relevant retail experience, local network and resources. Working with the franchisees has enabled us to expand our business in new markets, bring in local knowledge and network and expand our operation with less capital expenditure, as compared to establishing self-operated retail points. During the Track Record Period, all the franchisees were Independent Third Parties and independent of each other, and we did not have any equity interest or hold any management position in our franchisees. To the best knowledge of our Directors, none of our Directors, their associates or any of our shareholders who hold more than 5% of our issued capital, had any interests in any of our franchisees during the Track Record Period.

The franchisees directly purchase products from us at discounts to retail prices and in turn sell our products to end customers through their retail points. We recognise sales of our products to the franchisees upon delivery of the products to them. As at the Latest Practicable Date, some of our franchisees has owned and operated more than one franchised retail points.

Franchising Arrangement vs Distributorship Model

In contrast to a distributorship model, in which apparel companies generally do not exert controls over but rely on distributors to expand and operate their retail points, our franchise arrangement enables us to maintain stronger control over management of franchised retail point. For instance, each franchisee is approved and monitored by the market development department of our sales management centre in the head office, all franchised retail points are connected to our management information system, and the store managers are selected and appointed by us. In addition, in a distributorship model, there could be general distributors which manage distribution networks of multiple levels within a city, province or region and they are in charge of the development of the sales network in their authorised region for distribution. In our business model, the franchisees are required to obtain our approval for opening any retail point and by engaging franchisees, we are able to plan, control and develop our sales network across China.

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Management of Franchisees

The market development department of our sales management centre in the head office is primarily responsible for managing our franchisees, with the support of Shanghai Nuoqi and Quanzhou Nuoqi. It negotiates franchise agreements with potential franchisees and coordinates the store decoration and preparation with the franchisees before franchised retail points are opened. It also maintains ongoing relationships with and monitors the overall contractual performance of the franchisees. As at 31 October 2013, our market development department had 12 staff members. In addition, each regional office and its district managers manage the franchisees within their areas of operation. The policies and standards that we apply to manage the franchised retail points are the same as those for self-operated retail points.

Potential franchisees are required to submit applications to us setting out their background information and experience, information on the local economic and consumption conditions, store locations and an analysis of the local market. We review the application materials and physically inspect and approve the store locations. We generally select franchisees which meet our requirements as to financial strength, local market knowledge and expertise, reputation and suitable store sizes and locations.

As the franchisees adopt and implement our POS system, which is connected to our management information system, we are able to monitor the movement and level of inventories and sales status at franchised retail points. Based on the inventory and sales information, we coordinate the delivery of our inventory between our warehouses and franchised retail points. We analyse the historical sales information and inventory level for each franchised retail point and compare them with purchase orders the relevant franchisee placed with us. We believe the amount of orders placed by the franchisees corresponds to the actual sales and inventory status of their franchised retail points. As such, our Directors confirm that there was not any material accumulation of inventory at the franchisees' level during the Track Record Period and up to the Latest Practicable Date.

Policy to Manage “Cannibalisation”

To avoid “cannibalisation” among the franchisees, we require each franchisee to obtain our approval for opening any retail point and only allow the franchisee to sell our products at the specific authorised retail points. We believe this has enabled us to better control over the network of franchised retail points.

When potential franchisees submit applications to us, we require them to provide details of particular stores they will operate, including, among others, exact store locations and dates of commencement of operation. We assess local market conditions and other important factors in relation to the proposed store location in accordance with our policy, including, among others, local market capacities and potential growth, targeted customers' preferences, purchasing power and demand for our products, proposed store location's accessibility and surrounding business districts, average rent price, set-up costs, and coverage of existing self-operated and franchised retail points.

With a view to our long-term sustainable growth, we further evaluate whether the local market would have capacities to support the new franchised retail point without causing unnecessary competition against our existing retail points nearby and any adverse impact on their sales performance.

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In a geographical area where we already have self-operated and franchised retail points, we generally require certain distance between the new retail point and any existing retail points depending on the above factors that we have considered in evaluation of relevant franchisee's application.

Management Commission

Since 9 May 2012, in line with our contribution to the management of the franchised retail points, we have implemented a policy and started to collect management commissions from certain franchisees with reference to their annual sales. We select and appoint store managers for the franchised retail points, and we train these managers before they start to work at the retail points in order to ensure that they become familiar with our guidelines and policies on daily operations of the retail points. For those franchised retail points in respect of which the relevant franchisees are required to pay us a monthly management commission, the store managers of these franchised retail points become our employees and receive their remuneration from us.

In return for our contribution to the management of relevant franchised retail points, we have charged these franchisees on a monthly basis management commission, which are calculated as certain percentage of annual revenue of their franchised retail points. The percentage is up to 2.5% and varies depending on annual revenue of the franchised retail points. The monthly management commission is initially estimated with reference to the store monthly revenue and adjusted thereafter at the end of each year according to the store actual revenue for that year. For the year ended 31 December 2012 and the six months ended 30 June 2013, we received management commission from 16 and 29 franchisees, respectively, and the total amount of management commission from these franchisees amounted to approximately RMB372,000 and RMB572,000, respectively. We are in the process of implementing this policy and will require management commission from all the existing franchisees upon renewal of their franchise agreements. In addition, we intend to require management commission from new franchisees when we enter into franchise agreements with them.

Terms of Franchise Agreements

We enter into franchise agreements with our franchisees, which generally contains the following terms:

- ***Duration:*** The agreements generally have a duration of three years.
- ***Geographical exclusivity:*** Each franchisee is authorised to sell our products exclusively within a defined geographical area (i.e. authorised retail point) and is not permitted to sell our products outside that area. The franchisee may not assign, transfer or sub-franchise its franchise rights without our prior written consent.
- ***Exclusivity:*** Our franchisees are required to exclusively sell our products at the franchised retail points operated by them.
- ***Store operations:*** We require our franchisees to operate the retail points in strict compliance with our store operational guidelines and to participate in our advertising and promotional activities. We require and assist the franchisees to decorate the franchised retail points in accordance with our guidelines. We also provide certain display items such as shelves, counters, mannequin models and lighting to selected franchisees on a case by case basis.

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- **Collection of membership fees:** The franchisees are required to collect membership fees from our members on our behalf.
- **Payment term:** Before we make the first product delivery, each franchisee is generally required to make an one-off upfront prepayment which is estimated based on the gross floor area of the franchised retail point to cover the first purchase to be made by the franchisee. Upfront or annual licence fee is generally not required. The franchisee is also required to pay us a standard performance bond of approximately RMB10,000 to cover expenses in the event of any breach by the franchisee and a deposit for implementation of our POS system at the franchised retail point within three business days after signing of the franchise agreement. Before the 25th day of each month, the franchisee is required to settle the outstanding purchase balance and membership fees in the previous month.

For the year ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013, the average amount of one-off upfront prepayments paid by the franchisees was approximately RMB130,000, RMB101,000, RMB113,000 and RMB91,000, respectively.

- **Pricing:** The franchisees are required to implement at the franchised retail points operated by them our uniformed pricing policy. In the event that the franchisees need to make any adjustment of the prices (including selling our products at a discount), they must submit written applications to us and obtain our written consent.
- **Adoption of POS system:** The franchisees must adopt and implement our POS system, which is connected to our management information system, and pay for the required installation fee.
- **Termination rights:** The franchise agreements may be terminated anytime by mutual consent. The franchisees may unilaterally terminate the franchise agreements within 30 days of signing the agreements. Upon termination, the franchisees must stop using our proprietary operational and promotional materials, other than the apparel products sold to them, and unconditionally return such materials to us. The franchise agreements are automatically terminated upon occurrence of any of the following events: (i) the parties do not renew the agreements upon expiration, (ii) liquidation or winding-up of either party as legal entity or death of either party as individual, or (iii) either party's inability to perform obligations under the franchise agreements as caused by relevant governmental policy and applicable laws.
- **Renewal:** To renew the franchise agreements, franchisees must submit written applications to us at least three months before the expiry date. Upon our approval, both parties may enter into new franchise agreements.

Upon product delivery, the franchisees bear all damages and losses to the products, pursuant to terms of the franchise agreements. Products sold to franchisees generally cannot be returned except for quality defects and all product returns are subject to our approval. Furthermore, because we have rights to request ODMs and OEMs to exchange or repair defective products at any time pursuant to terms of relevant standard agreement, all product returns by the franchisees are ultimately borne by the OEMs and ODMs. See the subsection headed “— Quality Control” in this section for further discussion. We do not require the franchisees to meet the minimum purchase commitment and sales target in the franchise agreements, nor have any profit sharing arrangement with the franchisees.

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Business Licences for Franchised Retail Points

Under the terms of franchise agreements, our franchisees are required to obtain business licences that are registered under their own names for the franchised retail points they operate. During the Track Record Period, certain franchisees operated the franchised retail points under valid business licences which had been registered under their business partners' names. The business partners were friends and partners of these franchisees. These franchisees and their business partners generally share the rental expenses and operational expenses among themselves. In addition, they share economic outcome of the franchised retail points.

Our PRC legal adviser, Fujian Junli Law Firm, has advised us that the practice in respect of these franchised retail points did not strictly comply with the relevant PRC rules and regulations which require the business licences to be under the names of the relevant franchisees. As such, the relevant governmental authorities may order the franchisees to obtain the business licences under their own names, and in the event that they fail to do so, the franchisees may be ordered to cease operation of their franchised retail points.

Our PRC legal adviser has further advised us that it is the responsibility of our franchisees to obtain the requisite business licences for their respective franchised retail points pursuant to the applicable PRC rules and regulations. Any failure by our franchisees to obtain the requisite business licences for their respective franchised retail points would not subject us to any penalty, administrative punishment, fine or any other liability. Furthermore, our PRC legal adviser is of the view that obtaining the requisite business licence is a registration formality instead of a licencing or approval procedure, and provided the franchisees submitted the requisite application materials to the local administration for industry and commerce, there should not be any material legal impediment for the franchisees to complete their business licence registration.

As at the Latest Practicable Date, all of our franchisees have obtained requisite business licences under their own names for their respective franchised retail points. Our PRC legal adviser has further advised us that the incidents that our franchisees failed to obtain the requisite business licences for their respective franchised retail points during the Track Record Period would not have any material adverse effect on our business.

In order to ensure that our franchisees comply with PRC laws and regulations in respect of their business licences going forward, we adopted the enhanced internal control policy on management of franchisees in July 2013, whereby we strictly require all new franchisees to provide proof that they have obtained requisite business licences for their respective retail points before the commencement of operation. In addition, all existing franchisees are required to have registered business licences for their respective retail points in their own names upon renewal of their franchise agreements, and in the event they fail to do so, we may request the franchisees to cease their operations or we may terminate our business relationships with them.

Our district managers are responsible to strictly implement this policy. Ms. Gu Tao (顧濤), head of the market development department of our sales management centre in the head office who is responsible for managing franchisees, oversees the overall implementation of this policy in our Group to ensure that our district managers have effectively managed the opening and operation of franchised retail points. In addition, the legal and compliance officer, Ms. Xu Meilin (許梅陵), of our legal and compliance department assists Ms. Gu to ensure the compliance of all franchisees in accordance with

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our requirements and advise on relevant legal matters. In our regular inspections of franchised retail points, our district managers also check the particulars of business licences to ensure that all franchisees fully comply with our requirements in respect of business licences. Our district managers must make regular reports directly to Ms. Gu and Ms. Xu on the progress status of any rectification by relevant franchisees and the compliance of all the franchisees with the policy. In the event that any issues arise, our district managers must immediately raise them to Ms. Gu and Ms. Xu to take corrective actions. Ms. Gu and Ms. Xu have participated in legal and compliance-related training. With implementing and monitoring of the enhanced internal policy, our Directors are of the view that Ms. Gu and Ms. Xu possess adequate experience to effectively manage the franchisees and ensure their compliance with PRC laws and regulations as well as our requirement in respect of requisite business licences.

Appointment and Termination of Franchisees

The following table shows the appointment and termination of franchisees during the periods indicated:

	Year ended 31 December			Six months ended 30 June
	2010	2011	2012	2013
At the beginning of the period	68	141	211	222
Appointment of new franchisees	76	91	35	23
Termination of franchisees	(3)	(21)	(24)	(23)
At the end of the period	141	211	222	222

For the year ended 31 December 2010, 2011 and 2012 and for the six months ended 30 June 2013, we appointed 76, 91, 35 and 23 new franchisees, respectively, and terminated our relationships with three, 21, 24 and 23 franchisees, respectively. The franchise terminations were primarily due to the franchisees' inability to renew their leases, unsatisfactory performance and non-compliance with our franchising policies.

After we make a decision to terminate our relationships with certain franchisees, we closely monitor the inventory levels of relevant franchised retail points through our management information system for a certain period of time and reduce our product supply to them so as to minimise their inventory levels. Pursuant to our relevant policy, the terminated franchisees are generally given one month to cease operation of the relevant franchised retail points. In the event that we terminate our relationship with certain franchisees before the relevant franchise agreements expire, we generally enter into supplemental agreements for such termination. During the closure period, we no longer supply the terminated franchisees with any products and do not repurchase unsold inventories back. Upon our approval, the terminated franchisees can carry out certain promotion activities (such as clearance sale) to sell remaining inventories at discounts. During the Track Record Period, the average discount rate was from approximately 50% to 80% upon our approval. The inventory levels of all the franchised retail points with which we terminated our relationship during the Track Record Period remained low due to the above measures.

Furthermore, after the terminated franchisees cease operation of the franchised retail points, they must remove store decoration with our brand and logo labels from all unsold products under our supervision. Pursuant to terms of the franchise agreements, the terminated franchisees shall not use any products or materials marked with our brand or logo labels for any business activity, and shall not do

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anything which may be damaging to our product brand, corporation image and reputation. In the event that any franchisees breach this provision, we are entitled to claim against them for their legal liabilities. To the best knowledge of our Directors, there were no incidents of terminated franchisees using any products or materials marked with our brand or logo labels for any business activity, or conducting any activity damaging our product brand and corporation image during the Track Record Period and up to the Latest Practicable Date.

Retail Network Expansion Plan

The successful implementation of our expansion plan depends on a series of factors, including, among others, capacities and potential growth of local markets, preferences and purchasing power of targeted customers and their demand for our products, our funds available, and coverage of the existing self-operated and franchised retail points. We intend to further expand our retail network by establishing 58 new retail points for the two months ending 31 December 2013 and 200 new retail points across China in 2014. The table below sets forth the number of retail points that we plan to open by province for the periods indicated. We will continuously review the sales and operation performance of retail points and from time to time adjust the actual number, locations and timing of new retail points to be established.

	For the ten months ended			For the two months ending			For the year ending 31 December		
	31 October			31 December			31 December		
	2013			2013			2014		
	Self-operated retail point	Franchised retail point	Total	Self-operated retail point	Franchised retail point	Total	Self-operated retail point	Franchised retail point	Total
Fujian	1	6	7	0	5	5	1	4	5
Jiangsu	9	10	19	3	5	8	8	12	20
Anhui	5	7	12	6	3	9	6	10	16
Jiangxi	4	4	8	0	1	1	3	6	9
Shandong	7	0	7	5	0	5	4	4	8
Sichuan/Chongqing	1	1	2	2	1	3	9	11	20
Hubei	1	1	2	0	0	0	6	7	13
Hunan	0	0	0	0	2	2	6	6	12
Henan	2	0	2	0	0	0	6	6	12
Shanghai	0	0	0	0	0	0	3	2	5
Hebei	4	3	7	2	1	3	4	6	10
Liaoning	3	1	4	8	0	8	4	3	7
Inner Mongolia	2	0	2	0	0	0	4	2	6
Shanxi	0	0	0	0	0	0	3	2	5
Tianjin	8	1	9	1	2	3	6	1	7
Zhejiang	0	0	0	0	1	1	7	1	8
Others	6	0	6	6	4	10	20	17	37
Total	53	34	87	33	25	58	100	100	200

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We intend to strengthen our presence in Eastern China and are expanding to Southwestern China and Northern China. We will continue to establish more retail points in third- and fourth-tier cities in the PRC. We also intend to further expand our sales network in cities where we currently have no or limited presence but there is significant growth potential. Depending on the market conditions and customers' demand, we intend to establish approximately 50% of the new retail points as franchised retail points and approximately 50% of them as self-operated retail points comprising approximately 35% as department store concession counters, approximately 5% as stand-alone stores and not more than 10% as stores under cooperative arrangement. We do not expect the contribution from stores under cooperative arrangement to be material to our financial performance for the year ending 31 December 2014.

We take into account the fact that our existing franchisees may wish to open more franchised retail points in new markets due to the good performance and proven record of their existing retail points. In addition, more qualified candidates may be attracted to become our franchisees due to the good performance of our self-operated retail points in the newly entered markets. Furthermore, our regional offices may hold business promotion meetings to introduce our business model and franchise arrangement to potential franchisees, which has also helped us attract new franchisees.

For the year ended 31 December 2010, 2011 and 2012 and the ten months ended 31 October 2013, we established 111, 174, 91 and 87 retail points (including self-operated and franchised retail points), representing 94%, 77%, 25% and 21% of the retail points at the beginning of the respective periods. For the ten months ended 31 October 2013, we established 53 new self-operated retail points and 34 new franchised retail points. We closed 26 self-operated retail points and 43 franchised retail points during the same period. We are in the process of establishing 33 new self-operated retail points (including 27 department store concession counters and 6 stand-alone stores) and 25 new franchised retail points in the two months ending 31 December 2013 and expect to commence the operation of these new retail points by the end of 2013 according to our current expansion plan. The average gross floor area of the 27 department store concession counters, the 6 stand-alone stores and the 25 franchised retail points is estimated to be approximately 98 sq.m., 115 sq.m. and 129 sq.m., respectively. The number of new retail points to be established in 2013 represents a growth rate of approximately 34.5% from the total number of 420 retail points as of 31 December 2012.

We generally open a majority of our new retail points in the second half of each year primarily due to the higher levels of sales for our winter and fall product collections. As a result, the sales for newly established retail points are lower as compared to a full year operation. In addition, when we open new retail points in new markets, we may need certain period of time to build brand recognition from local customers and the sales from these new retail points may be low during such period. We believe our expansion plan for the year ending 31 December 2013 and 2014 is consistent with our historical results of operations and expansion and is necessary to support our growth strategy.

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Capital Expenditure

Our expected average cost of establishing a new stand-alone store mainly includes expected capital expenditure for store decoration and renovation, rental expenses and initial inventories. Our expected average cost of establishing a new department store concession counter or a new store under operative arrangement mainly includes expected capital expenditure for store decoration and renovation as well as initial inventories. Our expected average cost of establishing a new franchised retail point mainly includes expected subsidies for decoration and renovation costs. The table below sets forth the expected average cost of establishing each type of retail point for the year ending 31 December 2013 and 2014, respectively.

	<u>Year ending 31 December</u>	
	<u>2013</u>	<u>2014</u>
	<u>RMB'000</u>	<u>RMB'000</u>
Self-operated retail points		
Stand-alone stores	1,450–1,500	1,450–1,500
Department store concession counters.	300–350	300–350
Stores under cooperative arrangements	400–450	400–450
Franchised retail points	200–250	200–250

We estimate that (i) the total capital expenditure to be incurred for establishing new self-operated retail points to be approximately in the range of RMB16.5 million to RMB18.1 million for the two months ending 31 December 2013 and RMB43.5 million to RMB48.5 million for the year ending 31 December 2014, respectively, and (ii) the total capital expenditure to be incurred for establishing new franchised retail points to be approximately in the range of RMB5.2 million to RMB6.5 million for the two months ending 31 December 2013 and RMB20.0 million to RMB25.0 million for the year ending 31 December 2014, respectively. The total capital expenditure incurred for establishing the 87 new retail points during the ten months ended 31 October 2013 was approximately RMB20.8 million.

We will use our internal financial resources and bank borrowings to fund the capital expenditure of our expansion for the two months ending 31 December 2013 and intend to use approximately 70.3% of the net proceeds from the Global Offering to finance our expansion plan from 2014 onward. We will also use our internal funds generated from operation and bank borrowings to fund the expansion plan where necessary.

Breakeven and Payback

Breakeven of a new self-operated retail point is reached when its monthly gross profit is at least equal to its monthly expenses incurred (mainly including rental expenses, staff cost and utility expenses, excluding tax and depreciation). Payback period for a new self-operated retail point represents the time that it takes for the accumulated profit, less accumulated expenses (mainly including rental expenses, staff cost and utility expenses, excluding tax and depreciation) from the retail points to cover the relevant capital expenditure.

The following table sets forth the estimated average breakeven period and the estimated average payback period for the new stand-alone stores and new department store concession counters, based on our historical results of operations and experience. The stores under cooperative arrangement

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commenced operation in June 2013. Our Directors believe that the limited historical information available does not provide a basis for estimating the average breakeven period and the average payback period in respect of the new stores under cooperative arrangement.

	Estimated average breakeven period	Estimated average payback period
	month	month
Stand-alone stores	1–4	17
Department store concession counters.	1–3	30

Although the terms of the concession agreements with department stores are generally only one year, we expect that we will generally be able to renew the concession agreements with department stores upon expiry. During the Track Record Period, we established 185 department store concession counters and closed only 30 of them during such period. We closed 16 of these 30 department store concession counters after one year of operation, 11 of them after two years of operation and three of them after three years of operation primarily due to increases in concession fees required by department stores upon expiry of relevant concession agreements and unsatisfactory performance. Based on this fact and our management’s experience, our Directors are of the view that we generally maintained a stable relationship with department stores and were able to renew relevant concession agreements with most of our department stores. Furthermore, our Directors consider the impact of closure of a small number of department store concession counters was generally insignificant to our business and would not have any material impact to our financial condition and results of operations going forward.

Impact of Our Expansion Plan

We believe we will be well-positioned to capitalise on the fast-growing PRC men’s fashion casual wear market with the mix of self-operated and franchised retail points which are in line with our historical results of operations and our management’s experience. We plan to fund the capital expenditure of our expansion from our internal resources, new bank loans and the net proceeds from the Global Offering. After our expansion, our working capital need will increase due to the increased operation scale of our business. In case that we fund the capital expenditure of our expansion by using proceeds from new bank loans, the net cash generated from financing activities will increase and the finance cost will increase accordingly. Our market development department of our sales management centre in the head office is primarily responsible for managing our franchisees, with the support of Shanghai Nuoqi and Quanzhou Nuoqi. As of 31 October 2013, our market development department had 12 staff members. After our expansion, our sales management centre will be responsible for managing a larger number of franchisees. We plan to hire five additional staff members at our market development department to monitor and manage our increasing number of retail points. We believe, with our standard management practices for both our self-operated and franchised retail points, we are able to manage our expanded sales network and operation scale.

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We plan to maintain a balanced portfolio of self-operated and franchised retail points. We expect that our expansion plan and the mix of store types will have the following impact to our operations:

- ***Inventory balance and working capital.*** When we open new retail points in new markets, we generally need to maintain certain level of inventory at the new retail points in order to meet customers' demand. In addition, certain department stores may require us to maintain certain level of inventory at the relevant department store concession counters for sufficient product supply to their customers, which would require a higher working capital need and increase the inventory balance in respect of these stores.
- ***Gross profit margin.*** The gross profit margin of self-operated retail point is generally higher than that of franchised retail point. We plan to maintain a balanced portfolio of self-operated and franchised retail points and do not expect a material change in our gross profit margin as a result of a change in store mix.
- ***Cost structure.*** The initial set-up costs of department store concession counter, store under cooperative arrangement and franchised retail point, respectively, are lower than those of stand-alone store. With respect to store under cooperative arrangement, we generally share the initial set-up costs equally with third-party partners and they also bear rental expenses and all operational expenses. In addition, the cost of establishing a new retail point (such as average rent prices in local markets) is generally lower in third- and fourth-tier cities than in first- and second-tier cities.
- ***Risk profile.*** In addition to the store mix and the factors as stated above, local market capacities and potential growth, and targeted customers' purchasing power and demand for our products could also affect risks relating to the establishment of new retail points.

When we establish new retail points, we take into consideration a series of factors as discussed above. We also expanded the franchised retail points into new markets with the benefits of the relatively low capital expenditure for establishing new franchised retail points and franchisees' local market knowledge and network in the new markets.

We continuously review the sales and operation performance of retail points and strategically establish the retail points and strengthen our sales network that meet local consumers' income levels, preferences and demand. Depending on local market conditions, requisite preparation costs, and actual payback and breakeven periods, we will from time to time adjust the actual number, locations and timing of new retail points to be established. After due and careful inquiry, our Directors are of the view that the expansion plan would not have any significant financial and operational impact on our business.

Customers' Demand for our Products and Competition Analysis

Our Directors have considered a series of factors (with the major ones set forth below) on whether there will be sufficient overall demand for our products to warrant the establishment of new retail points according to our expansion plan.

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- **Historical growth in our revenue.** Our revenue increased from RMB322.2 million for the year ended 31 December 2010 to RMB572.1 million for the year ended 31 December 2012 at a CAGR of 33.3% and further by 14.4% from RMB276.2 million for the six months ended 30 June 2012 to RMB316.1 million for the six months ended 30 June 2013.
- **Historical and forecasted growth in the PRC men's fashion casual wear market.** The total retail sales value of the men's fashion casual wear market in the PRC grew from RMB43.3 billion in 2008 to RMB77.3 billion in 2012 at a CAGR of 15.6% and is projected to continue to grow at a CAGR of approximately 17.6% from 2012 to 2017, according to Frost & Sullivan.
- **Our expansion plan.** We intend to strengthen our presence in third- and fourth-tier cities which are expected to benefit significantly from China's rapid urbanisation and have robust potentials in consumers' purchasing power. We will continue to expand the mid-income consumer base and capitalise on the vast and growing mass market in these cities. In addition, we intend to further expand our sales network selectively in first- and second-tier cities that are expected to have significant demand and great growth potential for men's fashion casual wear products.
- **Enhanced marketing, sales and promotion strategies.** We continuously track the latest fashion trends and feedback from customers and members to ensure that our products meet the latest consumer preferences. We also actively conduct sales and marketing activities, which have been proved effective and successful, to promote our brand and corporate image among customers. We will continue to promote our products through magazines, brochures, television and outdoor billboards. Moreover, we will sell our products to a third-party e-commerce company that will sell our products online through a smartphone application. We also plan to further conduct online promotions and extend the coverage of our customer membership program to online customers through the application. We believe these will enable us to increase our online sales, provide convenience to existing members, retain their loyalty and further expand our customer base cost-effectively. Furthermore, we will continue to conduct certain marketing and promotion activities at our retail points to target our members and increase the consumers' awareness of our brand.

Based on our historical results of operations and experience, after having considered the major factors as stated above, our Directors are of the view that there will be sufficient demand for our products in our target cities in Eastern, Southwestern and Northern China, as well as other regions, in the PRC which warrant our expansion plan.

We assess local market conditions and other important factors in implementation of our expansion plan. We continuously review the sales and operation performance of the newly established retail points and based on our review, adjust our expansion plan from time to time. With a view to achieve our long-term sustainable growth, when we establish new retail points in local markets, we continue our policy on prevention of cannibalisation and evaluate whether these markets would have capacities to support the new retail points without causing unnecessary competition against our existing retail points nearby and any adverse impact on their sales performance. In geographical areas where we already have established self-operated and franchised retail points, we will continue to require certain distance between the new retail points and any existing retail points.

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Furthermore, we will also closely monitor the coverage of sales network and consider the performance of our competitors in nearby locations when we establish new retail points. We believe that we have distinguished ourselves from competing brands based on our business model, flexible procurement model, established customer membership programme and strong retail point management.

Our Directors believe that, our competitive selling prices, fashionable product designs, high product quality, and the growing market demand for our products and the improving economic conditions in the PRC will allow us to maintain a sustainable development of our business and implement our expansion plans accordingly. We intend to continue to leverage our competitive strengths, including our business model, management information system and customer membership programme, to drive and manage our growth in the future. With the operation of our product centre in Shanghai in 2015, our Directors believe that we will be able to enhance our product design and development capabilities and further improve our product quality, thereby enhancing our brand recognition.

Online Sales

We believe that online retail has significant growth potential in the PRC. We began our online sale initiative by selling a portion of our products directly through certain online retail website prior to 2012. In order to expand the online presence of our brand and the scale of our business, since January 2012, in addition to selling our products through online retail website, we have engaged and sold our products at wholesale price to Shanghai Zhonggou E-Commerce Development Co. Ltd. (上海眾購電子商務發展有限公司, or “Shanghai Zhonggou”), which in turn markets and sells our products to consumers through online retail shops hosted on several well-known PRC online retail websites such as Taobao.com, Tmall.com and Paipai.com. Established in December 2011, Shanghai Zhonggou, an Independent Third Party, is an integrated e-commerce distributor which provides a variety of e-commerce services including sales and marketing, information technology, customer service and logistics service. One of our prior employees is a director of and holds 5% equity interest in the company. We enter into a purchase and sale agreement with Shanghai Zhonggou every year. We recognise sales of our products to Shanghai Zhonggou upon delivery of the products. Our revenue from online sales increased by RMB15.7 million from RMB169,000 for the year ended 31 December 2010 to RMB15.9 million for the year ended 31 December 2011, and further by RMB6.7 million, or 42.1%, to RMB22.6 million for the year ended 31 December 2012. Furthermore, the revenue from our online sales increased by RMB11.5 million, or 149.4%, from RMB7.7 million for the six months ended 30 June 2012 to RMB19.2 million for the six months ended 30 June 2013. For the year ended 31 December 2012 and for the six months ended 30 June 2013, sales to Shanghai Zhonggou amounted to RMB20.7 million and RMB19.2 million, respectively, which accounted for 3.6% and 6.1% of our total revenue, respectively. The products sold through the online retail shops include specially developed products, which are differentiated from the products sold at our retail points, and certain out-of-season products. As advised by our PRC legal adviser, Fujian Junli Law Firm, our online sales through online retail websites have been in compliance with the relevant laws and regulations in the PRC.

We plan to expand our online retail business by further developing our management information system interfacing capabilities with the major online retailers. We intend to sell our products to a third-party e-commerce company that will sell our products online through a smartphone application in the first quarter of 2014. Customers will be able to review our product collections, select their preferred products and order these products online. The application will also recommend to the customers our

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other products which match the style of their selected products. We also plan to conduct online promotions and extend the coverage of our customer membership program to online customers through this application. We believe this new sales initiative will enable us to increase our online sales, provide convenience to existing members, enhance our brand recognition, retain their loyalty and further expand our customer base in a cost effective manner.

Furthermore, we intend to further develop our own online sales website in 2016. We will explore and develop other viable online sales applications and initiatives and upgrade our computer software and hardware in order to provide better online sales services. We will also establish warehousing facilities and recruit experienced technical and sales personnel for our online sales business. In addition, we plan to establish strategic relationships with third-party logistics companies to facilitate the logistics aspects of our online sales business.

Based on the advice from our PRC legal adviser, Fujian Junli Law Firm, before we commence selling our products through our own online sales websites, we will need to obtain an approval from the commercial department at the provincial level, make relevant registration with the local industry and commerce administration department, and file requisite documents with the telecommunication administration authority at the provincial level in accordance with the applicable PRC laws and regulations. Our PRC legal adviser has further advised us that there are no foreign ownership restrictions on the operation of online sales under the PRC laws.

Pricing

We leverage the strength of our business model in determining the prices of our products by analysing member information collected from our retail points, as well as market conditions. Our pricing strategy primarily considers the following factors:

- procurement costs of our products;
- historical data for sales of our products;
- the characteristics of our products; and
- the prices of our competitors' products.

We set a recommended retail price range for our products and require all retail points to follow our nationwide retail pricing policy. Subject to our consent, our franchisees may sell our products at discounted prices.

Sales Return Policy

We require all retail points operated by ourselves or our franchisees to adopt our uniform sales return policy. Under our sales return policy, defective products purchased by customers may be returned or exchanged. We have also established a nationwide customer services hotline to address customer feedback and complaints.

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During the Track Record Period, we had no material sales returns from customers or franchisees for defective products or any other reasons, and no material complaint or claim had been brought against us for product defects or any other reason.

CUSTOMER MEMBERSHIP PROGRAMME

We have an attractive customer membership programme with an established membership database. We offer membership benefits such as product discounts, fashion advice, sales previews, personal invitations to our member-only events and miscellaneous gifts (such as birthday gifts and in-house fashion magazines). We launched our customer membership programme officially in 2004. For the year ended 31 December 2010, 2011 and 2012 and for the six months ended 30 June 2013, we had approximately 323,000, 378,000, 483,000 and 313,000 members, respectively, who purchased at our self-operated and franchised retail points, and each member shopped with us on average for 2.45, 2.37, 2.55 and 1.63 times per year and on average spent RMB436, RMB606, RMB556 and RMB686, respectively per purchase. For the year ended 31 December 2010, 2011 and 2012 and for the six months ended 30 June 2013, retail sales to these members amounted to RMB345.1 million, RMB541.0 million, RMB685.2 million and RMB349.6 million, respectively, at our self-operated and franchised retail points, which accounted for over 80% of our total revenue from our self-operated and franchised retail points (based on retail prices net of discounts), for each respective period. We believe we are one of the few men's fashion casual wear brands in the PRC each to have successfully developed a substantial member base.

Our large customer membership base provides us with a reliable sample population to gather useful market and customer information such as fashion trends, customer income demographics, spending history and preferences. We apply this information in the design and development of our new products which we believe closely track the latest market trends and have the highest customer appeal. Our customer membership programme also allows us to customise our marketing approach to target specific customer groups through a combination of mailing, cellphone text messaging, telephone calls and website advertising, which reduces our advertising expenses as compared to general mass marketing campaigns.

The centralised customer service department of our sales management centre maintains the membership information database as well as regular contact with our members. Based on the amount of purchases from us, we classify our members into two types with four classes, namely VIP members and distinguished members, which are further classified into silver card members, gold card members and platinum card members. VIP members accumulate one point when making any purchase in the amount of RMB1. They can be upgraded into other upper classes when their cumulative points within the latest 12 months reach certain threshold: silver card members when the cumulative points reach 1,000 points, gold card members when the cumulative points reach 3,000 points, and platinum card members when the cumulative points reach 5,000 points. The members can use their membership cards in any of the retail points, except for discount retail outlets, in our nationwide sales network.

To convert first-time customers to become members and to retain existing members, we offer various benefits and services to our members. All members of our customer membership programme enjoy a range of benefits: discounts to their purchases (such as 10% discounts on all purchases and a special discount on birthday purchase), member-only promotional sales, certain value-added services (such as services from our strategic partners, and free advice on apparel maintenance and fashion

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trends), and product-related updates and publications. Distinguished members also have the benefits of door-to-door clothes trying-on services and other information services (such as product recommendation manuals, fashion multimedia messaging service (“MMS”) messages and e-books). In addition, gold card members and platinum card members are entitled to receive special gifts. Platinum card members regularly receive text messages on fashion and healthcare advice.

In general, we charge a first-time entry membership fee of RMB20 per member. The membership card is valid for one year from the date of issuance or renewal. We charge a membership renewal fee of RMB20 for VIP members, though we have formulated and implemented a policy to waive such fee for, among others, (i) all platinum and gold members, (ii) new members when we launch marketing promotion activities at our newly opened retail points, and (iii) existing members who are our large customers or have established long-term records with us. Our store managers have discretion to determine whether to waive membership fees for certain customers in accordance with the above policy. We use the waiver of membership fees as the targeted marketing and promotion strategy to expand our membership database. As at 30 June 2013, we had approximately 12,400 platinum card members, 37,600 gold card members, 191,700 silver card members and 477,000 VIP card members, respectively, who had made purchases at our retail points.

We track the frequency of member visits at each self-operated or franchised retail point. We assign a sales staff member at each retail point to maintain regular contact with frequent visiting members and periodically provide personalised greetings and services to such members.

For members that have not purchased from us for more than one year, we use various marketing tools and provide different services to try to induce them to shop with us again. These services include sending small gifts to these members and offering lucky draws and free trials of our new products.

We have adopted personal data security policy with respect to handling personal information of our members. As advised by our PRC legal adviser, Fujian Junli Law Firm, our personal data security policy has been in compliance with the relevant laws and regulations in the PRC.

CUSTOMERS

We generate our revenue from (i) retail sales to customers at our self-operated retail points, and (ii) wholesales to our franchisees. For the year ended 31 December 2010, 2011 and 2012 and six months ended 30 June 2013, our five largest customers, who were our franchisees, accounted for less than 30% of our total revenue. To the best knowledge of our Directors, none of our Directors, their associates or any of our shareholders who hold more than 5% of our issued capital, had any interests in any of our five largest customers during the Track Record Period.

MARKETING

Our marketing and promotion strategy has played an important role in the enhancement of our brand among customers and the increase in our product sales. We have specifically formulated our marketing strategies for our targeted consumers who prefer fashionable and reasonably priced men’s fashion casual wear products. We continuously track the latest fashion trends and feedback from customers and members to ensure that our products meet the latest consumer preferences. We also periodically upgrade our store display to enhance our brand image. We have established an online radio station which won multiple awards for its unique design to enhance our communication with our retail

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points and franchisees and to promote our brand and corporate image. Our marketing efforts also include advertising through magazines, brochures, television, internet and outdoor billboards to market our products.

We also sponsor events such as television shows and competitions to enhance our brand image. We have been involved in the following capacity for the events below:

- sponsor for The Ninth CCTV Model TV Contest (Strait Division) (第九屆CCTV模特電視大賽(福建賽區)獨家冠名贊助商) in April 2008;
- sponsor for the Miss International Tourism Fujian Division (國際旅遊小姐冠軍總決賽中國福建賽區協辦單位) in March 2009 and April 2010; and
- apparel sponsor for the Zhang Jizhong Version of TV drama “Journey to the West” (張紀中版《西遊記》劇組服裝贊助商) in August 2009.

Furthermore, we will sell our products to a third-party e-commerce company that will sell our products online through a smartphone application. We also plan to conduct online promotions and extend the coverage of our customer membership program to online customers through the application.

For the year ended 31 December 2010, 2011 and 2012 and six months ended 30 June 2013, our advertising and promotion expenses amounted to RMB5.3 million, RMB14.0 million, RMB17.6 million and RMB7.8 million, respectively.

MANAGEMENT INFORMATION SYSTEM

We have developed our IEAP System, an integrated management information system, to improve the management of our supply chain and retail points. Our management information system has two major interfaces, one for procurement and inventory management and the other for retail point management. The procurement and inventory management interface records the receipt of finished products and the movement of inventories from our warehouses to retail points. The retail point management interface records and monitors our operational data, including retail sales data at our self-operated and franchised retail points.

Our management information system provides us with immediate access to inventory, sales and other operational data at our self-operated and franchised retail points. As a result, we are able to make informed decisions on production planning, sales and marketing, and inventory management based on real time data. Our management information system also allows us to monitor and coordinate the procurement and delivery of our inventory between our warehouses and retail points on a real time basis. In addition, our management information system helps us identify frequently visiting members and analyse their relevant information (such as spending history and preferences), which allows us to use such information to prepare product development plans and design our products accordingly. The system also provides support for our marketing plans and enables us to maintain a relationship with frequently visiting members through mailing, group text messaging, group emails and telephone calls.

During the Track Record Period, we did not experience any incidents of malfunction of any part of our management information system which materially affected our operations.

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CASH CONTROL

We accept cash payment at our self-operated stand-alone stores, department store concession counters and stores under cooperative arrangement. We have adopted and implemented strict internal control procedures for handling cash, which include the following:

- the store manager and a designated sales staff member at each retail point are required to check sequentially numbered sales receipts against sales and cash proceeds for each business day, perform daily reconciliation of sales and actual cash proceeds, and record the results in our management information system;
- the cash proceeds for any given day are kept overnight in the store's safe, the key of which is held by the store manager while the passcode is kept by the designated sales staff member. The cash proceeds in the store's safe are deposited to our designated bank accounts no later than 10:00 a.m. on the next day;
- the accounting department in our head office verifies the reconciliation of sales and actual cash proceeds of the previous day by cross-checking the sales information recorded in our management information system and the cash deposited in the designated bank accounts in respect of each retail point and after having found the two amounts are consistent, records a confirmation accordingly;
- the designated sales staff member of each retail point is required to perform monthly cash inventory check which must be monitored and supervised by the responsible district manager, and upon completion, the designated sales staff member and the district manager both should sign the monthly records of cash inventory check and submit them to a manager at the accounting department for examination and confirmation;
- in the event that any discrepancy is found in the daily cash reconciliation and the monthly cash inventory check in respect of the retail point, the store manager and the designated sales staff member must report such discrepancy to their supervisory district manager and the manager at the accounting department or our financial controller according to the discrepancy amount. Any cash discrepancy caused by human reasons shall be borne and compensated by the responsible staff members; and
- the responsible staff members at each retail point are only authorised to make deposits to, but not withdrawals from, our accounts.

During the Track Record Period and up to the Latest Practicable Date, we had not recorded any cash loss or theft.

Our Directors are of the view that the internal control procedures for handling cash are adequate and effective under Rule 3A.15(5) of the Hong Kong Listing Rules. After having made reasonable due diligence inquiries, reviewed the procedures, measures and policies we have adopted for handling cash, and discussed with our management on the progress of implementing these procedures, measures and policies in our business, the Sole Sponsor concurs with our Directors' view.

INVENTORY CONTROL AND LOGISTICS**Inventory Control**

Our inventory consists of finished apparel, accessory products and auxiliary materials. Under our business model, we typically plan to procure approximately 60% of our total estimated demand ahead of the upcoming season, approximately 20% during the season itself for our more popular products and products with potential sales growth based on actual consumer demand, and another approximately 20% for our best-selling products and products modified from existing best-selling products with supplementary features, in order to capture strong market demand. As a result of our ability to effectively manage our outsourced production process and monitor customer sales at retail points under our management information system, our procurement model ensures that our products closely track real customer demand. This allows us to reduce the risk of excessive inventory.

We maintain an optimal level of inventory at each of our retail points, which is determined based on the factors such as sales performance of the retail points and local customer traffic flow. Before we place orders to procure finished products from OEMs and ODMs, we first calculate the ratio between the total inventory purchase cost at ex-factory price and the total retail revenue in the previous month in respect of each retail point. We then determine the optimal level of inventory taking into account of the general market conditions and the expected demand for our products. Based on our historical experience, the optimal level of inventory for a retail point is generally not more than three times of its retail revenue in the previous month.

We may adjust the optimal level of inventory for a retail point under certain circumstances. In particular, when we open a new retail point in new markets, we may need certain period of time to build brand recognition from local customers and the sales from the new retail point may be low. As we need to maintain certain level of inventory at the new retail point, the optimal inventory level may temporarily increase. In addition, certain department stores require us to maintain certain minimum level of inventory at department store concession counters for sufficient product supply to their customers. The minimum inventory levels vary among department store concession counters and have been determined with reference to factors such as monthly store retail revenue, monthly sales target, and the number of products required in store and central display area. Other department stores have only required us to maintain sufficient product supply for department store concession counters in general. In these cases, the optimal level of inventory for these department store concession counters may increase.

As all of our self-operated and franchised retail points and warehouses are linked to our management information system, we closely monitor the inventory levels of these retail points and warehouses. When the inventory level of any retail point has fallen below the optimal level, we deliver inventory to the retail point to increase its inventory level if it is self-operated, or remind our franchisee to place orders with us if the retail point is franchised. During the Track Record Period, we have not incurred any material provision for obsolete or slow-moving inventory. For the year ended 31 December 2010, we had write back of inventory provision in the amount of RMB49,000, and for the year ended 31 December 2011 and 2012 and for the six months ended 30 June 2013, we made inventory provision of RMB1.4 million, RMB2.4 million and RMB1.5 million, respectively.

Inventory Control Measures

As part of our inventory control policy, we conduct monthly, quarterly and yearly physical stock counts at our self-operated and franchised retail points and semiannually physical stock counts at our warehouses. We designate managers and experienced staff members to supervise all scheduled physical stock counts. We have compared the actual inventory balance on hand against the monitory records of our management information system and adjust our inventory balance should any discrepancy arise. During the Track Record Period, there were no material discrepancies in inventory levels between our regularly scheduled physical stock count and the monitory records of our management information system. See the subsection headed “Financial Information — Net Current Assets — Inventories” in this prospectus for details of our inventory provision policy.

We start our inventory control from the supply chain management. We determine the production scale of each product and manage the product supply to different retail points ahead of each season while we monitor the inventory levels and movements of these retail points. Through our management information system, our sales staff members closely monitor the inventory levels and sales status of best-selling products at each self-operated retail point and allocate such products to those self-operated retail points which each has a low inventory turnover rate. Furthermore, we also from time to time identify slow-moving products at certain self-operated retail points and relocate such products to other self-operated retail points which have a low inventory level of slow-moving products or have performed well in selling these products. In addition, we monitor closely the volume of slow-moving products at franchised retail points through our management information system and reduce our future product supply to the franchised retail points which have high volume of slow-moving products. We sell slow-moving products during our promotional activities, at the end of each season, at discount retail outlets and over the internet.

Logistics

As at the Latest Practicable Date, we had a total of eight warehouses. Our central warehouse is located near our headquarters in Quanzhou, Fujian province. The other seven warehouses are located in Changshu of Jiangsu province, Nanchang of Jiangxi province, Hefei of Anhui province, Wuhan of Hubei province, Jinan of Shandong province and Pengzhou of Sichuan province.

Our third-party manufacturers engage logistics service providers to deliver finished products from their production plants directly to our warehouses based on our purchase orders. These third-party manufacturers are responsible for any loss that may occur during transportation. We arrange for delivery of products from our warehouses to our retail points either through our own delivery team or through third-party service providers.

The logistic department of our sales management centre is responsible for coordinating the delivery of inventories and managing our warehouses. To efficiently coordinate logistics, we normally consider establishing a branch warehouse in an area when we have more than 50 retail points. Such an area normally covers one to several provinces. We have our own delivery vehicles in our warehouses in Quanzhou, Nanchang and Hefei. In our other warehouses, we engage logistics service providers for delivery services. The time of delivery from our warehouses to retails points is typically no more than two days. As at 31 October 2013, our logistics department had 124 employees, including those employees located in the branch warehouses.

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We typically enter into agreements with terms of one year with our logistics service providers, and we may renew these agreements with these service providers if we are satisfied with their services. We have right to seek indemnification or damages from these logistics service providers for any loss that may occur during transportation, pursuant to terms of the agreements. As at 31 December 2012 and 30 June 2013, we have engaged 44 and 23 such third-party logistics service providers, respectively, and most of our logistics service providers have provided such services to us for more than three years. During the Track Record Period, we did not experience any material loss in the delivery of our products.

COMPETITION

The men's fashion casual wear market in the PRC is fragmented given the existence of numerous brands in the market with the top ten market players accounted for 24.6% market share in terms of retail revenue in 2012 according to Frost & Sullivan. The demand for men's fashion casual wear products has been growing steadily in recent years in line with the economic growth in the PRC. We believe the principal competitive factors in the PRC men's fashion casual wear industry include brand image, design capability, market positioning, sales network, retail point management and customer loyalty. We face competition from several international brands and domestic manufacturers of fashion casual menswear in our regional markets, such as Zuoan, Cabbeen and GXG. Nevertheless, we believe our unique business model, strategic sales network, attractive customer membership programme and strong retail point management allow us to differentiate ourselves from our competitors and continue to compete effectively in the market. For further details on the risks associated with the competition we face, see the subsection headed "Risk Factors — Risks Relating to Our Industry — We operate in a very competitive market and face intense competition" in this prospectus.

EMPLOYEES

As at 31 October 2013, we employed 1,564 full-time employees. The following is a breakdown of our employees by department as at that date:

<u>Department</u>	<u>Number of Employees</u>
Management and administration	223
Production management and research and development	75
Sales	1,115
Finance and accounting	27
Warehouse and logistics	124
Total	<u>1,564</u>

All our new employees are required to receive entry-level training before commencing their employment with us. We also provide internal trainings to all of our employees to enhance their product knowledge and skills on a continuing basis.

The remuneration packages of our employees include salary, bonuses and allowances. In accordance with applicable PRC regulations on social insurance, we participate in a pension contribution plan, a medical insurance plan, an unemployment insurance plan, a maternity insurance plan, and a retirement insurance plan for our employees. Our PRC legal adviser, Fujian Junli Law Firm,

has confirmed that we have not received any investigation, enquiry or dispute notice relating to any breach of the statutory social insurance and housing fund obligations applicable to us under the PRC laws.

Social Welfare Schemes

As required under the Regulation of Insurance for Labour Injury (工傷保險條例), the Provisional Insurance Measures for Maternity of Employees (企業職工生育保險試行辦法), the Interim Regulation on the Collection and Payment of Social Insurance Premiums (社會保險費徵繳暫行條例) and the Interim Provisions on Registration of Social Insurance (社會保險登記管理暫行辦法), we are obliged to provide our employees in the PRC with the social welfare schemes covering pension insurance, unemployment insurance, maternity insurance, injury insurance and medical insurance.

We have contributed to the employee social welfare schemes based on local minimum wages according to our understanding of the general practice in Quanzhou, Fujian province and Shanghai, as well as our communications with the relevant governmental authorities, whereas under the applicable PRC laws and regulations such contribution should instead be calculated based on the actual wages of employees. We have received confirmation letters dated 22 November 2013 and 19 August 2013, respectively, from the Human Resources, Labour and Social Security Bureau of Quanzhou City (泉州市人力資源和社會保障局), the Human Resources, Labour and Social Security Bureau of Jinjiang City (晉江市人力資源和社會保障局) and the Social Insurance Administration Centre of Qingpu District of Shanghai City (上海市青浦區社會保險事業管理中心), the respective competent and responsible authorities in Quanzhou and Jinjiang, Fujian province and Shanghai in respect of our social welfare schemes, confirming that since our inception up to the issuance date, (i) we had duly completed requisite procedures in respect of pension insurance, unemployment insurance, maternity insurance, injury insurance and medical insurance for all our employees; (ii) the social insurance authorities in Quanzhou and Jinjiang, Fujian province and Shanghai acknowledged the standards we used for social insurance contribution; (iii) the social insurance coverage, the standards and basis we used for social insurance contribution were in compliance with applicable laws and regulations; (iv) we had not had any delay, omission or evasion of social insurance contribution, nor had we violated applicable social insurance laws and regulations; and (v) we had not been subject to any administrative punishment in relation to our social insurance contribution.

Our PRC legal adviser, Fujian Junli Law Firm, has advised us that in the event that the relevant social insurance authorities demand our Group to pay (i) the difference in social insurance contribution based on the actual wages of employees as stated above and (ii) an additional late payment at a daily rate of 0.05% of the total amount of the difference (for the difference in social insurance contribution incurred prior to 1 July 2011, late payment calculated from the effectiveness date of 1 July 2011 for the Social Insurance Law of the PRC (中華人民共和國社會保險法); for the difference incurred on or after 1 July 2011, late payment calculated from the actual due date), we shall be required to make such payments, and if our Group does not do so within the prescribed time limit, the relevant social insurance authorities may impose a fine on us of one to three times of the total amount of payments.

Our PRC legal adviser, Fujian Junli Law Firm, is of the view that the likelihood that the relevant social insurance authorities will order us to pay the difference in social insurance contribution based on the actual wages of employees as stated above or impose any late payment or penalty on us is remote. Nevertheless, we will pay the difference in social insurance contributions if requested by and in

accordance with such request of the relevant social insurance authorities based on the actual wages of employees. Our Group has adopted a prudent approach and made appropriate provisions for the difference in social insurance contribution of approximately RMB1.8 million, RMB1.5 million, RMB0.9 million and RMB0.6 million for the year ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013.

As advised by our PRC legal adviser, Fujian Junli Law Firm, (i) there was no record showing that we were subject to any administrative punishment as a result of any breach of the applicable PRC social insurance laws and regulations, and (ii) we had not been issued any notice in relation to administrative punishment as a result of any breach of the applicable social insurance laws and regulations. Furthermore, as at the Latest Practicable Date, we have not received any notice from the relevant social insurance authorities ordering us to make payments in respect of outstanding contributions, nor were we aware of any employees' complaints or demands for payment of social insurance contributions, nor had we received any legal documentation from the labour arbitration tribunals or the People's Courts regarding disputes of social insurance contributions. We will continue to contribute to the employee social welfare schemes in line with the general practice and/or applicable rules in Quanzhou and Jinjiang, Fujian province and Shanghai.

We have undertaken to the CSRC that we would pay any outstanding amount of social insurance contribution before the Listing in accordance with the PRC rules and regulations and we will make social insurance contribution in accordance with the requirements and standards under the PRC and local regulations. We will contact the relevant social insurance authorities and make relevant payments and contributions before the Listing.

As an annual compliance measure following the Listing, we will check with the relevant social insurance authorities in Quanzhou and Jinjiang, Fujian province and Shanghai on whether the local minimum wage standards we have used for social insurance contribution there continue to be in compliance with the applicable laws and regulations and the general practice of local industry and we will make relevant disclosure in the annual reports after the Listing. In addition, we will calculate the social welfare contributions based on the actual wages of our employees pursuant to the applicable PRC laws and regulations and continue to make the provisions for the difference in social insurance contribution going forward, where necessary. Furthermore, in the event that our provisions for such difference are not sufficient to cover the actual amount requested, if any, our Controlling Shareholders have also provided an indemnity against all claims, actions, demands, proceedings, judgements, losses, liabilities, damages, costs, charges, fees, expenses and fines suffered or incurred by us in any member of our Group in this regard prior to and after the Listing.

Housing Funds

We are also required under the applicable PRC laws and regulations to provide our employees in the PRC with the social welfare schemes covering housing funds and housing benefits. We have contributed to the housing funds based on local minimum wages in accordance with our understanding of the general practice in Quanzhou, Fujian province and Shanghai, as well as our communications with the relevant governmental authorities, whereas under the applicable PRC laws and regulations such contribution should instead be calculated based on the actual wages of employees. We have received confirmation letters dated 22 November 2013 and 19 August 2013 respectively, from the Housing Fund Administration Centre of Quanzhou City (泉州市住房公積金管理中心), the Housing Fund

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Administration Centre of Jinjiang City (晉江市住房公積金管理中心) and the Housing Fund Administration Centre of Shanghai City (上海市住房公積金管理中心), the respective competent and responsible authority in Quanzhou and Jinjiang, Fujian province and Shanghai in respect of our housing fund scheme, confirming that since our inception up to the issuance date, (i) we had duly registered our housing fund scheme and established the relevant housing fund account in accordance with applicable PRC laws and regulations; (ii) the housing fund authorities in Quanzhou and Jinjiang, Fujian Province and Shanghai acknowledged the standards we used for housing fund contribution; (iii) the standards and basis we used for housing fund contribution were in compliance with the applicable laws and regulations; (iv) we had not had any delay, omission or evasion of housing fund contribution, nor had we violated the applicable housing fund laws and regulations; and (v) we had not been subject to any administrative punishment in relation to our housing fund contribution.

Our PRC legal adviser, Fujian Junli Law Firm, has advised us that in the event that the relevant housing fund authorities demand our Group to pay (i) the difference in housing fund contribution based on the actual wages of employees as stated above; and (ii) an additional late payment at a daily rate of 0.03% of the total amount of the difference in housing fund contribution from the due date, we shall be required to make such payments, and if our Group does not do so within the prescribed time limit, the relevant housing fund authorities may impose a fine on us at a certain percentage of the total amount of the difference or even apply for an order for payment from the relevant PRC court.

Our PRC legal adviser, Fujian Junli Law Firm, is of the view that the likelihood that the relevant housing fund authorities will order us to pay the difference in housing fund contribution based on the actual wages of employees as stated above, impose any fine on us or apply for a court order from the relevant PRC court is remote. Nevertheless, we will pay the outstanding housing fund contributions if requested by and in accordance with such request of the relevant housing fund authorities based on the actual wages of employees. Our Group has adopted a prudent approach and made appropriate provisions for the difference in housing fund contribution of approximately RMB1.0 million, RMB1.0 million, RMB0.9 million and RMB0.4 million for the year ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013.

As advised by our PRC legal adviser, Fujian Junli Law Firm, (i) there was no record showing that we were subject to any administrative punishment as a result of any breach of the applicable PRC housing funds laws and regulations; and (ii) we had not been issued any notice in relation to administrative punishment as a result of any breach of the applicable housing funds laws and regulations. Furthermore, as of the Latest Practicable Date, we have not received any notice from the relevant housing fund authorities ordering us to make payments in respect of outstanding contributions, nor were we aware of any employees' complaints or demands for payment of housing fund contributions, nor had we received any legal documentation from the labour arbitration tribunals or the People's Courts regarding disputes of housing fund contributions. We will continue to contribute to the housing fund schemes in line with the general practice and/or applicable rules in Quanzhou and Jinjiang, Fujian province and Shanghai.

We have undertaken to the CSRC that we would pay any outstanding amount of housing fund contribution before the Listing in accordance with the PRC rules and regulations and we will make housing fund contribution in accordance with the requirements and standards under the PRC and local regulations. We will contact the relevant housing fund authorities and make relevant payments and contributions before the Listing.

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As an annual compliance measure following the Listing, we will check with the relevant housing fund authorities in Quanzhou and Jinjiang, Fujian province and Shanghai on whether the local minimum wage standards we have used for housing fund contribution there continue to be in compliance with the applicable laws and regulations and the general practice of local industry and we will make relevant disclosure in the annual reports after the Listing. In addition, we will calculate housing fund contributions based on the actual wages of our employees pursuant to the applicable PRC laws and regulations and continue to make the provisions for the difference in housing fund contribution going forward, where necessary. We will also disclose our compliance record in the annual reports after the Listing. Furthermore, in the event that our provisions for such difference are not sufficient to cover the actual amount requested, if any, our Controlling Shareholders have also provided an indemnity against all claims, actions, demands, proceedings, judgements, losses, liabilities, damages, costs, charges, fees, expenses and fines suffered or incurred by us in any member of our Group in this regard prior to and after the Listing.

ENVIRONMENTAL AND SAFETY MATTERS

Environmental Matters

We do not own or operate any manufacturing facilities. We believe our internal guidelines and policies are adequate to comply with all applicable PRC environmental laws and regulations.

Our business operation only discharges domestic wastewater and generates garbages as we outsource all of our production to OEMs and ODMs. We completed the construction of our head office buildings including our headquarter offices, staff quarters and logistic warehouses in Quanzhou, Fujian province in December 2012. As the lease of our previous head office building expired on 31 December 2012, we put the head office buildings into use while we were applying for the requisite final acceptance of environmental protection facilities related to the buildings. We completed the final acceptance procedure in respect of relevant environmental protection facilities and received a clearance from the Environmental Protection Bureau of the Quanzhou City (泉州市環境保護局) in July 2013. We further obtained the pollutant discharge permit in September 2013.

Pursuant to the applicable PRC and local environmental protection laws and regulations, upon completion of our head office buildings, we were required to complete the final acceptance of relevant environmental protection facilities. Our PRC legal adviser, Fujian Junli Law Firm, has advised us that as we had not completed such procedure before we commenced any use in our head office buildings, the relevant environmental protection authorities may issue an order to us to suspend our use of the office buildings and impose a fine up to RMB100,000 on us. We have received a confirmation letter dated 12 August 2013 from the Environmental Protection Bureau of the Administration Committee of the Quanzhou Economic and Technological Development Zone (泉州經濟技術開發區管理委員會環境保護局), confirming that (i) except for the above incident, as of the issuance date, we fully complied with national and local environmental protection laws, regulations, requirements and standards; (ii) we completed the final acceptance procedure in respect of relevant environmental protection facilities with respect to construction, renovation and expansion of our head office buildings; (iii) our business operation activities were in compliance with national and local environmental protection laws, regulations, requirements and standards; (iv) the environmental protection authority would not impose any administrative punishment against us due to the above incident; (v) as of the issuance date, we had not been, or should be, subject to any administrative punishment due to any environmental protection-

related issue; and (vi) there had not been any dispute between the environmental protection authority and us. We have also received a confirmation letter dated 24 June 2013 from the Environmental Protection Bureau of the Qingpu District of Shanghai (上海市青浦區環境保護局) that (i) Shanghai Nuoqi fully complied with national and local environmental protection laws and regulations; and (ii) the Environmental Protection Bureau of the Qingpu District of Shanghai had not imposed any punishment on Shanghai Nuoqi since its inception. We have also received a confirmation letter dated 5 November 2013 from the Environmental Protection Bureau of the Jinjiang City (晉江市環境保護局) that the environmental protection authority had not imposed any administrative punishment against Quanzhou Nuoqi in the previous three years due to breach of environmental protection laws and regulations.

As advised by our PRC legal adviser, Fujian Junli Law Firm, (i) the incident did not constitute any material breach of the PRC and local environmental protection laws and regulations; (ii) the risk that we be subject to any administrative punishment by the competent governmental authority is remote; and (iii) we had not been subject to any administrative punishment due to breach of environmental protection laws and regulations.

Labour and Safety Matters

We are subject to various labour and safety laws and regulations in the PRC, including the PRC Labour Law (中華人民共和國勞動法), the Regulation of Insurance for Labour Injury (工傷保險條例), the Unemployment Insurance Law (失業保險條例), the Provisional Insurance Measure for Maternity of Employees (企業職工生育保險試行辦法), the Interim Provision Registration of Social Insurance (社會保險登記管理暫行辦法), the Interim Regulation on the Collection and Payment of Social Insurance (社會保險費徵繳暫行條例) and other related regulations, rules and provisions issued by the relevant governmental authorities from time to time for operations similar to ours in the PRC.

According to the PRC Labour Law (中華人民共和國勞動法) and the Labour Contract Law (中華人民共和國勞動合同法), labour contracts shall be concluded if labour relationships are to be established between individual workers and members of our Group, and we are required to enter into non-fixed-term employment contracts with employees who have worked for the Group for more than ten years or for whom a fixed term employment contract has been concluded for two consecutive terms. We must provide wages which are not lower than local minimum wage standards to the employees from time to time. We are also required to make severance payments to an employee when the term of their employment contract expires, unless the employee voluntarily terminates the contract or voluntarily rejects an offer to renew the contract in circumstances where the conditions offered by the employer are the same as or better than those stipulated in the current contract. The amount of severance payment is equal to the monthly wage of the employee multiplied by the number of full years that the employee has worked for the employer. We are required to establish a system for labour safety and sanitation, strictly abide by applicable rules and standards and provide relevant education to our employees. We are also required to provide our employees with labour safety and sanitation conditions meeting applicable rules and standards and carry out regular health examinations of our employees engaged in hazardous occupations.

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During the Track Record Period, we complied with all applicable labour and safety laws and regulations in all material respects and implemented internal safety guidelines and operating procedures. Since the commencement of our business, none of our employees has been involved in any major workplace accident in the course of their employment, and we have never been subject to disciplinary actions with respect to the labour protection issues.

Our PRC legal adviser, Fujian Junli Law Firm, has confirmed that we have entered into labour contracts with our employees in accordance with the Labour Contract Law (中華人民共和國勞動合同法) and our Group will not be responsible for breaches of laws, rules and regulations by the operations of our third-party manufacturers. Furthermore, our Directors have confirmed that our Group was not held liable for any breach of laws, rules and regulations by our third-party manufacturers during the Track Record Period.

INTELLECTUAL PROPERTY RIGHTS

As at the Latest Practicable Date, we had (i) registered 89 trademarks in the PRC, three trademarks in Hong Kong and three trademarks in Macao Special Administrative Region of the PRC, (ii) applied for the registration of four trademarks in the PRC under various categories, and (iii) registered six copyrights to computer software. We are also the owner of three domain names. For further details, please see the subsection headed “Statutory and General Information — Further Information about Our Business — 2. Intellectual property rights” in Appendix VIII to this prospectus and the subsection headed “Risk Factors — Risks Relating to Our Business — We may be affected by infringement of our intellectual property rights or counterfeiting of our products and we may be also involved in claims initiated by third parties alleging possible infringement of their intellectual property rights” in this prospectus. During the Track Record Period and up to the Latest Practicable Date, our Group had not been subject to any litigation, arbitration or claim alleging infringement of intellectual property rights owned by third parties or any administration punishment imposed by the relevant intellectual property authorities in the PRC, nor had we been aware of any litigation, arbitration or claim to be pending or threatened in relation to infringement of intellectual property rights against us.

PROPERTIES

We occupy certain properties in the PRC in connection with our business operations. These properties are used for non-property activities as defined under Rule 5.01 (2) of the Hong Kong Listing Rules. They mainly include premises for our offices, retail points and warehouses. As at 31 October 2013, we owned two properties and leased 58 properties in the PRC, and none of these properties had a carrying value of 15% or more of our consolidated total assets.

Self-owned Properties

As at 31 December 2012, we had obtained land use rights for two properties. We acquired one property located in Quanzhou, Fujian province in October 2010, and have used it as our head office buildings including our headquarter offices, staff quarters and logistic warehouses. We acquired the other land located in Shanghai in March 2012 and plan to use it as the site of our product centre for product design and development, procurement, and production quality control.

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Pursuant to the applicable PRC and local laws and regulations, upon completion of the construction works, we are required to complete the final inspection and acceptance procedure with local governmental authorities. We obtained the planning permit for construction use of land and the planning permit for construction works, as well as the construction works commencement permits, from local governmental authorities in respect of our head office buildings in Quanzhou, Fujian province. We completed construction of the head office buildings in December 2012. As the lease of our previous head office building expired on 31 December 2012, we put the head office buildings into use while we were applying for the requisite final inspection and acceptance procedure in respect of the head office buildings. We completed the final inspection and acceptance procedure in November 2013 and expect to obtain the relevant property ownership certificate before the Listing.

Upon completion of the construction of our head office buildings in Quanzhou, we used the properties without completion of the requisite final inspection and acceptance procedure. Local governmental authorities may issue an order to rectify such omission and impose a fine at least 2% up to 4% of the construction contract price on us and we shall also be liable to indemnify any losses incurred. As advised by our PRC legal adviser, Fujian Junli Law Firm, the potential maximum fine for us would be approximately RMB2.5 million which equals to 4% of the total contracted amount of the relevant construction agreement. We have received a confirmation letter dated as at 20 June 2013 from the Land Planning and Construction Bureau of the Administration Committees of the Quanzhou Economic and Technological Development Zone (泉州市經濟技術開發區管理委員會國土規劃建設局) that (i) except for the above incident, we fully complied with national and local laws and regulations on construction approval and quality control, and obtained requisite permits in respect of the construction of the head office buildings; and (ii) the land authority would not impose any administrative punishment against us due to the above incident.

Our PRC legal adviser, Fujian Junli Law Firm, has advised us that (i) the non-compliance did not constitute a material breach of the PRC and local laws and regulations, (ii) the risk that we be subject to any administrative punishment or fine by the competent governmental authority is remote, and (iii) the non-compliance does not constitute a material legal impediment to obtaining the property ownership certificate in respect of our head office buildings.

Our PRC legal adviser has further advised us the possibility that a higher- or provincial-level authority challenges or revokes the confirmation is minimal as the issuing authority is competent to do so and our exemption from legal liabilities is consistent with the PRC laws which prescribe that no administrative penalty shall be imposed where a person commits a minor unlawful act and promptly rectifies its actions, and the act has not caused any harmful consequence.

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Leased Properties

The table below sets forth a summary of the properties leased by our Group which are not included in “Appendix IV — Property Valuation” as at 31 October 2013:

No.	Brief descriptions of the properties	Gross floor area (sq.m.)	Usage	Range of expiry dates in relevant lease agreements
1	26 leased properties located in Fujian province, the PRC	6,116	Retail points	From 7 December 2013 to 15 October 2018
2	12 leased properties located in Jiangxi province, the PRC	4,772	Retail points; warehouse	From 30 September 2014 to 30 September 2019
3	Four leased properties located in Anhui province, the PRC	2,989	Retail points; warehouse	From 4 April 2015 to 24 October 2016
4	Three leased properties located in Hunan province, the PRC	996	Retail points	From 17 October 2015 to 30 September 2017
5	Two leased properties located in Sichuan province, the PRC	1,665	Retail points; warehouse	From 19 October 2015 to 31 October 2017
6	Two leased properties located in Hubei province, the PRC	2,896	Warehouses	From 5 March 2014 to 30 June 2014
7	Three leased properties located in Jiangsu province, the PRC	4,186	Retail points; warehouse	From 27 August 2015 to 19 January 2017
8	One leased property located in Zhejiang province, the PRC	220	Retail point	31 July 2015
9	One leased property located in Shanghai, the PRC	1,488	Office	14 May 2014
10	One leased property leased in Chongqing, the PRC	200	Retail point	31 August 2014
11	One leased property leased in Guizhou province, the PRC	298	Retail point	19 July 2015
12	One leased property leased in Henan province, the PRC	326	Retail point	31 August 2016
13	One leased property leased in Shandong province, the PRC	2,800	Warehouse	31 July 2015

As at 31 October 2013, we leased 58 properties for our self-operated retail points, offices and warehouses, among which the lessors of 27 leased properties (22 of these leased properties used for retail points and the remaining five of these leased properties used for warehouses) are not able to provide valid property ownership certificates and other relevant documents. As a result, as advised by our PRC legal adviser, Fujian Junli Law Firm, the relevant leasing agreements of these leased properties may be invalid and we may be forced to vacate the properties in the event any party who has a proper ownership certificate claims its right in any of these leased properties. The dates when we entered into relevant lease agreements with the lessors range from 30 September 2004 to 21 October 2013. According to the local general practice, the relevant PRC authorities accepted the registration of 15 of these 27 leased properties whereas the remaining 12 of these leased properties (eight of these leased properties used for retail points and the remaining four used for warehouses) have not been registered. Of these 27 leased properties, 22 lessors have provided an indemnity in favour of us against all losses (including, among others, loss of revenue) and damages due to any dispute in this regard, including, among others, seven lessors of the eight leased properties that are used for our retail points and three lessors of the four leased properties that are used for warehouses. The lessors of these 12 leased properties are Independent Third Parties.

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For the year ended 31 December 2010, 2011 and 2012 and the ten months ended 31 October 2013, the total revenue from sales in these 22 leased properties used for our retail points was RMB48.7 million, RMB57.1 million, RMB61.2 million and RMB50.8 million, representing approximately 15.1%, 12.2%, 10.7% and 9.9% of our total revenue, respectively, and based on the gross profit margin of our self-operated retail point for the same periods, the total gross profit from these 22 leased properties was estimated to be approximately RMB24.6 million, RMB33.2 million, RMB38.3 million and RMB33.4 million, representing approximately 19.4%, 16.2%, 14.8% and 13.9% of our total gross profit, respectively. In the event that we are required to relocate the relevant 22 retail points to other properties, the total relocation cost is estimated to be approximately RMB4.1 million. Our Directors confirm that it would not take more than one month to find a suitable replacement with comparable rental expense and location for any of these 22 retail points with the lessors not being able to provide us valid property ownership certificates. Based on the total revenue of RMB50.8 million from these 22 retail points for the ten months ended 31 October 2013, our Directors estimate the loss of revenue in one month to be approximately RMB5.1 million.

Our Directors believe that our business operation will not be materially affected if we are required to vacate these properties as (i) we will be able to relocate these retail points and warehouses without significant difficulty, and (ii) the lessors of these leased properties have provided an indemnity in favour of us against all losses and damages due to any dispute in this regard. We are also advised by our PRC legal adviser, Fujian Junli Law Firm, that we are entitled to claim against the lessors for any loss and damages under terms of the lease agreements or in accordance with the applicable PRC laws if our rights to use these properties are challenged by third parties, as a result of the lessors' defective titles to these leased properties. Furthermore, our Controlling Shareholders have also provided an indemnity in favour of us against all losses, expenses and damages (including, among others, loss of revenue) which we may incur due to any dispute in respect of these 27 leased properties.

In addition, there were another 17 leased properties the lessors of which had provided valid ownership certificates but these leased properties were not registered with the relevant PRC authorities primarily due to the non-cooperation of the relevant lessors. We use 15 of these leased properties for our retail points and the remaining two leased properties for warehouses. For the year ended 31 December 2010, 2011 and 2012 and the ten months ended 31 October 2013, the total revenue from sales in the 15 leased properties used for our retail points was RMB30.4 million, RMB38.3 million, RMB40.1 million and RMB33.0 million, representing approximately 9.4%, 8.2%, 7.0% and 6.4% of our total revenue, respectively, and based on the gross profit margin of our self-operated retail point for the same periods, the total gross profit from these 15 leased properties was estimated to be approximately RMB15.4 million, RMB22.2 million, RMB25.1 million and RMB21.7 million representing approximately 12.1%, 10.1%, 9.7% and 9.0% of our total gross profit, respectively. In the event that we are required to relocate the relevant 15 retail points to other properties, the total relocation cost is estimated to be approximately RMB2.3 million. Our Directors confirm that it would not take more than one month to find a suitable replacement with comparable rental expense and location for any of these 15 retail points in respect of which relevant leasing agreement have not been registered, based on the total revenue of RMB33.0 million from these 15 retail points for the ten months ended 31 October 2013, the loss of revenue in one month is estimated to be approximately RMB3.3 million.

As advised by our PRC legal adviser, Fujian Junli Law Firm, the lessors of these 17 leased properties are able to provide valid property ownership certificates and the relevant lease agreements are effective, enforceable and binding under the PRC laws.

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Our PRC legal adviser has further advised us that in the event that the lessor and we are required to register the relevant lease agreements, as the lessor and we may be subject to fines ranging from RMB1,000 to RMB10,000 for each non-registered lease, the maximum penalty for our failure to register the total of 29 leased properties with the relevant PRC authorities (including 12 leased properties with the lessors not being able to provide us valid property ownership certificates and 17 leased properties which the lessors had provided valid property ownership certificate but were not registered) would be approximately RMB290,000.

Our PRC legal adviser has further advised us that in respect of the 27 leased properties with the lessors not being able to provide us valid property ownership certificates, we are entitled to claim against the lessors for any loss and damages caused by their defective titles to the properties under terms of the lease agreements or in accordance with the applicable PRC laws. Our PRC legal adviser has also advised us that in respect of the 17 leased properties which have not been registered with the relevant PRC authorities, the lessors of these properties are able to provide valid property ownership certificates and the relevant lease agreements are effective, enforceable and binding under the PRC laws. Furthermore, our Directors confirm that it would not take more than one month to find a suitable replacement with comparable rental expense and location for any of these leased properties which have been used for retail points. Based on the above, our Directors are of the view that these leased properties are, individually and collectively, not crucial nor material to our business.

Please also see the subsection headed “Risk Factors — Risks Relating to Our Business — Our rights to use our leased premises for certain of our retail points could be challenged and we may be subject to fines as a result of unregistered leases” in this prospectus.

INSURANCE

Our insurance coverage includes employee social insurance and property insurance. We also maintain insurance for the inventory stored in our warehouses and self-operated retail points.

We generally do not maintain product liability insurance for our products. We believe that our practice is in line with the general practice in the PRC. During the Track Record Period, we did not receive any material claim from customers or consumers relating to any liability arising or relating to the use of our products.

LEGAL COMPLIANCE AND PROCEEDINGS

As at the Latest Practicable Date, we were not engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance is known to our Directors to be pending or threatened by or against us, that would have a material adverse effect on our results of operation or financial condition. In particular, our Group had not been subject to any product liability claims. Our PRC legal adviser, Fujian Junli Law Firm, has advised and our Directors have confirmed that, saved as disclosed in this prospectus, our Group has complied with relevant laws and regulations in all material aspects, including laws and regulations relating to environmental protection, safety, labour and social security, intellectual property rights and properties and has obtained all licences, approvals and permits from appropriate regulatory authorities for our business operations in the PRC since the commencement of the Track Record Period and up to the Latest Practicable Date.

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Our Controlling Shareholders have provided an indemnity in favour of our Group from and against, among other things, all actions, claims, losses, payments, charges, costs, penalties, damages or expenses which we may incur, suffer or accrue, directly or indirectly, that may arise from or in connection with non-compliance incidents as disclosed above in this section.

Internal Control Measures

In order to prevent any future non-compliance with applicable laws and regulations generally and, in particular, those as disclosed above, we have implemented the following internal control measures:

- We have designated the secretary to our Board, Mr. Chen Quanyi (陳全懿), to oversee the internal control measures to ensure on-going compliance with applicable laws and regulations, as Mr. Chen is in charge of daily affairs and operation of our in-house legal and compliance department and liaison with our external legal adviser on legal and regulatory issues. He took training sessions on internal control policies and procedures and compliance-related matters in January 2013.
- The chief financial officer and company secretary of our Company, Mr. Au Yeung Ho Yin, will oversee the internal control measures and compliance-related matters jointly with Mr. Chen. Mr. Au Yeung has substantial experience in financial auditing and internal control gained from his previous work experiences. He and Mr. Chen have been directly liaising with our internal control consultants to formulate and implement internal control measures. See the subsection headed “Directors, Supervisors and Senior Management — Senior Management” in this prospectus for further background of Mr. Au Yeung Ho Yin.
- The legal and compliance officer, Ms. Xu Meilin (許梅陵), who joined our legal and compliance department in August 2011 and has been responsible for reviewing legal document in general, has been designated to review specific contractual terms in relation to our daily business operations since July 2013. Ms. Xu has around three years of legal and compliance-related work experience and has passed the PRC national judicial examination.
- We have engaged Fujian Junli Law Firm as our external legal adviser to provide assistance on legal and compliance matters and handle material legal issues in relation to the Listing from June 2013 until completion of the Global Offering. We intend to continue to engage them for a term of three years to advise on our regulatory compliance with applicable PRC rules and regulations on corporate, environmental protection, labour, safety, social insurance, properties and other matters. In addition, we intend to engage external legal counsels to advise us on the ongoing obligations and duties of directors of a publicly listed company, including sessions on connected transaction, code of corporate governance, dealing in securities, disclosure of price-sensitive information, notifiable transactions and dissemination of information. These external legal counsels must keep the secretary to our Board informed upon knowing any changes and updates in the applicable laws, regulations, standards and requirements.
- Our Directors and senior management received trainings on the compliance with PRC laws and regulations relating to our business and the retail industry in January and May 2013. They will continue to receive such trainings from experienced legal advisers or other

BUSINESS

competent individuals and professional companies. In addition, we will arrange trainings to our Directors and senior management to provide them relevant updates of the rules and regulations relating to our operation going forward.

- Our audit committee will be responsible for reviewing and overseeing our internal control measures from time to time and will discuss such measures with our management to ensure our management has performed its duty to have in place the effective internal control measures.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Immediately following the completion of the Global Offering, Mr. Ding Hui and Mr. Ding Canyang together will be interested in approximately 47.49% of our issued share capital (assuming the Over-allotment Option is not exercised). As confirmed by our Controlling Shareholders, none of them nor any of their respective associates engages in or had interests in any business that, directly or indirectly, competes or may compete with our Group's business.

INDEPENDENCE FROM THE CONTROLLING SHAREHOLDERS

Having considered all relevant factors, we are satisfied that we can conduct our business independently of our Controlling Shareholders (including any associate thereof) after the Global Offering:

(i) Management Independence and Operational Independence

Although our Controlling Shareholders will retain a controlling interest in our Company after the Listing, our Board has full authority to make all decisions regarding, and to carry out, our own business operations independently. Our Company (through its subsidiaries or pursuant to certain contractual arrangements) holds or enjoys the benefit of all relevant licences necessary to carry out our businesses, and has sufficient capital, equipment and employees to operate our business independently from our Controlling Shareholders.

Our Board consists of a total of nine Directors, comprising four executive Directors, two non-executive Directors and three independent non-executive Directors. Our Controlling Shareholders, Mr. Ding Hui and Mr. Ding Canyang are our executive Directors.

Our management and operational decisions are made by our executive Directors and senior management, most of whom have served our Group for a long time and have substantial experience in the industry in which we are engaged. Moreover, each of our Directors is aware of his or her fiduciary duties as a Director which require, among other things, that he or she acts for the benefit and in the best interests of our Company and does not allow any conflict between his or her duties as a Director and his or her personal interests.

Pursuant to our Articles, a Director who to his or her knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with our Company, shall declare the nature of his or her interest at the meeting of our Board at which the question of entering into the contract or arrangement is first taken into consideration, if he or she knows his or her interest then exists, or in any other case, at the first meeting of our Board after he knows that he is or has become so interested. A Director shall not be entitled to vote (nor be counted in the quorum) on a resolution of our Board approving any contract or arrangement or other proposal in which he or she or any of his or her associates is materially interested, except in certain prescribed circumstances, details of which are set out in the section headed "Appendix VI — Summary of the Articles of Association of our Company" to this prospectus.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

The provisions in our Articles ensure that matters involving a conflict of interests which may arise from time to time will be managed in line with accepted corporate governance practice so as to ensure that the best interests of our Company and the Shareholders (including the minority Shareholders) taken as a whole are preserved. Following the Listing, our Board is required to comply with the provisions of the Hong Kong Listing Rules.

Further, we believe our three independent non-executive Directors bring independent judgement to the decision-making process of our Board.

Our Controlling Shareholders have undertaken to abstain from voting on any future connected transactions relating to them and/or their respective associates. On the basis of the foregoing, our Directors are of the view that we are independent from our Controlling Shareholders and their respective associates in terms of management and business operations.

(ii) Administrative Independence

We have our own capabilities and personnel to perform all essential administrative functions including financial and accounting management, human resources management and research and development. Our company secretary is independent of our Controlling Shareholders.

(iii) Financial Independence

We have our own financial management system and the ability to operate independently from our Controlling Shareholders from a financial perspective. Our Directors believe that we are capable of obtaining financing from external sources without reliance on the Controlling Shareholders. Upon completion of the Global Offering, all guarantees provided by the Controlling Shareholders to our Company, will be fully released.

DEED OF NON-COMPETITION

Conditional upon the Listing taking place, each of our Controlling Shareholders, (collectively, the “Covenantors” for the purpose of this section headed “Deed of Non-competition”) has entered into a deed of non-competition (the “Deed of Non-Competition”) with our Company, pursuant to which each of the Covenantors undertakes to us that with effect from the Listing Date and for as long as the Shares remain listed on the Hong Kong Stock Exchange and he is regarded as a controlling shareholder (as defined under the Hong Kong Listing Rules), the Covenantor will not, and will procure that none of his associates will:

- (a) directly or indirectly engage, participate or hold any right or interest in or otherwise be involved in any business in competition with or likely to be in competition with our existing business activity or any principal business activity of any member of the Group or be in competition with us in any business activities which we may undertake in the future (the “Restricted Business”) save for (i) the holding of not more than 5% shareholding interests in any listed company in Hong Kong; or (ii) the holding of shares in any listed company in Hong Kong where the Restricted Business conducted or engaged in by such company accounts for less than 10% of the relevant company’s consolidated turnover or consolidated

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

assets, or (iii) where the Covenantor is already, directly or indirectly, interested or invested in the operations of companies which are engaging in Restricted Business and details of which have been specifically disclosed in this prospectus.

- (b) take any direct or indirect action which constitutes an interference with or a disruption to our business activities including, but not limited to, solicitation of our customers, suppliers or staff.

Each of the Covenantors also represents and warrants that, neither he nor any of his associates is currently engaging in and has not had any interest in any business that directly or indirectly competes or may compete with our Group's business.

In addition, each of the Covenantor has undertaken that if any new business opportunity relating to any Restricted Business is made available to them, they will direct the Restricted Business to us with such required information to enable us to evaluate the merits of the Restricted Business.

Any decision of our Company as to whether or not to engage in the Restricted Business will have to be approved by our independent non-executive Directors. Where our independent non-executive Directors have reviewed the opportunity to invest, participate, be engaged in and/or operate with a third party any Restricted Business and has declined such opportunity, the Covenantors (or their respective associate(s)) may subsequently invest, participate, engage in or operate the Restricted Business as long as the terms by which the Covenantors subsequently invest are not more favourable than those disclosed to our Company. The decision of our independent non-executive Directors on whether to pursue or not to take up the Restricted Business and the corresponding basis will be disclosed in our Company's annual report or by way of an announcement to the public after the Listing.

Where our Company decides and offers to invest, participate, be engaged in and/or operate any Restricted Business with the Covenantors and/or their respective associates, the Covenantors and/or their respective associates can invest, participate, be engaged in and/or operate such Restricted Business with our Company. Our Company will comply with the requirements of the Hong Kong Listing Rules in case of such cooperation with the Covenantors and/or their respective associates.

Each of the Covenantors further undertakes that they will provide to our Company all information necessary for the enforcement of their above non-competition undertakings.

Our Directors believe that there are adequate corporate governance measures in place to manage the conflict of interests arising from any competing business and to safeguard the interests of the Shareholders as the Deed of Non-competition also provides that:

- (i) our independent non-executive Directors shall review, at least on an annual basis, compliance with the Deed of Non-competition by the Covenantor and the options, pre-emptive rights or first rights of refusal provided by the Covenantor on his existing or future competing businesses;
- (ii) the Covenantors shall provide all information necessary for the annual review by our independent non-executive Directors and the enforcement of the Deed of Non-competition;

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

- (iii) each of the Covenantors shall use his reasonable endeavours to procure that his respective associates shall provide all information and access to the financial records of the Covenantor and his respective associates as necessary subject to confidentiality restrictions owed by them to any third party for the annual review by our independent non-executive Directors and professional advisers of our Company with regard to the compliance with and enforcement of the Deed of Non-competition;
- (iv) our Company shall disclose decisions with basis on matters reviewed by our independent non-executive Directors relating to the compliance with and enforcement of the undertaking of the Covenantors under the Deed of Non-competition (for example, the exercise of options or first rights of refusal) either through the annual/interim report of our Company, or by way of announcements to the public;
- (v) the Covenantors shall make declarations on compliance with the Deed of Non-competition in accordance with the principle of making voluntary disclosure in the corporate governance report; and
- (vi) the Covenantors shall abstain from voting and shall not be counted in the quorum at any general meeting of our Company or a Board meeting if there is any actual or potential conflict of interest or if there are connected transactions relating to our Controlling Shareholders and/or their respective associates.

The Deed of Non-competition will cease to have effect on any of the Covenantor if he ceases to be a Controlling Shareholder of our Company, or the date on which the Listing is withdrawn, whichever occurs first.

All Directors confirmed that they do not engage in or are not interested in any business which competes, or is likely to compete, directly or indirectly, with our Group's business.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

BOARD OF DIRECTORS

Our Board consists of nine members, of whom four are executive Directors, two are non-executive Directors and three are independent non-executive Directors. The table below sets forth certain information of our Directors:

<u>Name</u>	<u>Age</u>	<u>Position</u>	<u>Date of appointment to our Board</u>	<u>Principal responsibilities</u>	<u>Relationship with other Directors</u>
Ding Hui	41	Chairman, chief executive officer and executive Director	18 January 2008	Overall management of our Group's business operation	Brother of Ding Canyang and Ding Lixia
Ding Canyang	44	Executive Director, executive director and general manager of Shanghai Nuoqi	18 January 2008	Overall management of Shanghai Nuoqi's operation	Brother of Ding Hui and Ding Lixia
Chen Quanyi	32	Executive Director, secretary of the Board	20 April 2009	Overall administration	—
Jin Wenge	40	Executive Director, vice president of our Company	28 January 2011	Investment and financing of our Group	—
Han Huiyuan	50	Non-executive Director	9 July 2013	Perform duties as a Board member but not day-to-day management	—
Ding Lixia	39	Non-executive Director	18 January 2008	Perform duties as a Board member but not day-to-day management	Sister of Ding Hui and Ding Canyang
Qi Xiaozhai	63	Independent non-executive Director	20 January 2010	Chairman of remuneration committee	—
Kong Yuquan	48	Independent non-executive Director	20 January 2010	Chairman of nomination committee	—
Hsu Wai Man, Helen	43	Independent non-executive Director	9 June 2013	Chairman of audit committee	—

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Executive Directors

Mr. Ding Hui (丁輝), aged 41, is the chairman, the chief executive officer and an executive Director. Mr. Ding Hui was appointed to the Board on 18 January 2008. He is one of the two co-founders of our Group. Mr. Ding Hui has around 10 years of experiences in the garment retailing business and he is responsible for the overall corporate strategies, management, planning and business development of our Group. In 2004, Mr. Ding Hui, together with his brother, Mr. Ding Canyang, established Quanzhou City Nuoqi. Mr. Ding Hui was a director and also the general manager of Quanzhou City Nuoqi from September 2004 to January 2008. Mr. Ding Hui is currently a member of the eleventh Quanzhou committee of the Chinese People's Consultative Conference (泉州市政協委員會委員), the vice chairman of Fujian Province Enterprises and Entrepreneurs Association* (福建企業與企業家聯合會). Mr. Ding obtained a college degree in secretarial and office automation from Engineering and Commerce College of South-Central University for Nationalities (中南民族大學工商學院) in December 2012. Mr. Ding Hui is the brother of Mr. Ding Canyang and Ms. Ding Lixia.

Over the years, Mr. Ding Hui has received various awards in recognition of his contributions to the industry and local economies. Mr. Ding Hui has received “2007 Fujian Economic Year Innovative Award” (2007福建經濟年度創新獎), nominated as the “Top 30 Outstanding Economic Figures of Quanzhou City (泉州市30位傑出經濟人物)” in 2008 and the “2010 Top Ten Role Model of China Apparel Distributors and Retailers (2010中國服裝零售商十大學習典範)” in 2010. He has been appointed as the first honorary principal of Fujian Straits Brands and Economic Development Research Centre (福建省海峽品牌經濟發展研究院) and has also been granted the title of “14th Fujian Province Excellent Entrepreneur (第十四屆福建省優秀企業家榮譽稱號)” in 2011.

Mr. Ding Canyang (丁燦陽), aged 44, is an executive Director. He was appointed to the Board on 18 January 2008. Mr. Ding Canyang has around 10 years of experience in garment retailing business and he is responsible for overall product procurement of our Group. He is one of the two co-founders of our Group. He is currently the director and general manager of Shanghai Nuoqi and is responsible for the overall management and operation of Shanghai Nuoqi. Mr. Ding Canyang was the director of Quanzhou City Nuoqi from September 2004 to January 2008 and was responsible for the product procurement. Mr. Ding Canyang graduated from Jinjiang City Chen Dai Minzu Secondary School* (晉江市陳埭民族中學) in July 1988. Mr. Ding Canyang is the brother of Mr. Ding Hui and Ms. Ding Lixia.

Mr. Chen Quanyi (陳全懿), aged 32, is an executive Director. He was appointed to the Board on 20 April 2009. Mr. Chen has 9 years of experience in garment retailing business and he is responsible for overall administration of our Group. Mr. Chen is currently the secretary of the Board. He joined Quanzhou City Nuoqi in 2004 and has acquired extensive experience in our Group's operation as he has worked in the market development department and the management and administration department of our Company. Mr. Chen graduated from Fujian Normal University (福建師範大學) with a diploma in Computerised Accounting in 2003.

Mr. Jin Wenge (金文戈), aged 40, is an executive Director. He was appointed to the Board on 28 January 2011. Mr. Jin has over 10 years of experience in banking industry and investment management and he is responsible for investment and financing of our Group. Prior to joining our Group, Mr. Jin has worked as the deputy general manager of bank management department of Fuzhou branch and the general manager of bank management department of Quanzhou branch of China Minsheng Banking

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Corp. Ltd. from January 2004 to December 2010, respectively. He has also worked as the assistant to the general manager in the Investment Banking department of Industrial Securities Co., Ltd. from March 1997 to December 2003. Mr. Jin obtained his master degree in management engineering from the Jilin Industrial University (吉林工業大學) in 1997 and bachelor degree in marketing from Changchun Institute of Optics and Fine Mechanics (長春光學精密機械學院) in 1994.

Non-executive Directors

Mr. Han Huiyuan (韓惠源), aged 50, is a non-executive Director. He was appointed to the Board on 9 July 2013. Mr. Han is currently the managing director of Heaven-Sent Capital Management Group Co., Ltd. (硅谷天堂資產管理集團股份有限公司), a corporate shareholder of Silicon Shenzhen and is responsible for the overall business operation. Mr. Han obtained a master degree in urban economics from the Renmin University of China in 2011 and a bachelor degree in industrial automation from Huazhong Technical College* (華中工學院) (currently known as the “Huazhong University of Science and Technology (華中科技大學)”) in 1984.

Ms. Ding Lixia (丁麗霞), aged 39, is a non-executive Director. She was appointed to the Board on 18 January 2008. Ms. Ding is the legal representative and a director of Nuoqi Investment since November 2007. Ms. Ding has worked as the operation manager from May 1998 to March 2001, the operation controller from April 2001 to October 2006 and the deputy general manager from November 2006 up till now in Jinjiang City Hong Sheng Textile and Garment Manufacturing Co., Ltd.* (晉江市鴻升針織製衣有限公司). Ms. Ding graduated from Jinjiang City Chen Dai Minzu Secondary School* (晉江市陳埭民族中學) in July 1992. Ms. Ding is the sister of Mr. Ding Hui and Mr. Ding Canyang.

Independent non-executive Directors

Mr. Qi Xiaozhai (齊曉齋), aged 63, is an independent non-executive Director. He was appointed to the Board on 20 January 2010. Mr. Qi has over 20 years of experience in economic analysis. He has been the deputy officer and the officer of Shanghai Urban Commerce and Economic Research Centre* (上海市商業經濟研究中心) since May 1991 and is currently the chief researcher since February 2007. Mr. Qi has also worked for Shanghai Finance and Trade Office Secretarial Division* (上海市政府財貿辦秘書處), a government department, from July 1988 to May 1991. Over the years, Mr. Qi has published articles in various media, a research report on passenger flow in the sphere of business of Shanghai (上海市商圈客流調查報告) in 2006 and two books in relation to urban commerce in 2007 and 2009. In 2011 and 2012, Mr. Qi’s research paper titled “Shanghai Commerce Investment Report (上海市商業投資報告)” was awarded with the second prize in Shanghai Investment Report (2011) and Shanghai Investment Report (2012), respectively. Mr. Qi qualified as a senior economist in February 1996. Mr. Qi obtained a master degree in economics from Shanghai University of Finance and Economics (上海財經大學) in December 1995 and obtained his economist qualification in June 1989. He graduated from Staff and Worker University of Shanghai First Commerce Bureau* (上海市第一商業局職工大學) with a diploma in commerce and economics in September 1981.

Mr. Kong Yuquan (孔雨泉), aged 48, is an independent non-executive Director. He was appointed to the Board on 20 January 2010. Mr. Kong has over 20 years of experience in legal profession. He is currently an independent non-executive director of Edifier Technology Co., Ltd. (a company listed on the Shenzhen Stock Exchange (stock code: 002351)). He is also a partner of Jingtian & Gongcheng since 2007. Mr. Kong has also been appointed as a committee member of the listing committee of Shenzhen Stock Exchange. Mr. Kong qualified as a PRC lawyer since 1993. He obtained

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

his master degree in international economic law from the University of Warwick in 2000 and master degree in international economic law from the Renmin University of China (中國人民大學) in 1991. Mr. Kong graduated from Soochow University (蘇州大學) with a bachelor degree in law in 1988.

Ms. Hsu Wai Man, Helen (徐慧敏), aged 43, is an independent non-executive Director. She was appointed to the Board on 9 June 2013. Ms. Hsu has over 20 years of experience in accounting. She is currently an independent non-executive director of several listed companies including China Forestry Holdings Co. Ltd. (a company listed on the Hong Kong Stock Exchange) (stock code: 930), Perfect Shape (PRC) Holdings Limited (a company listed on the Hong Kong Stock Exchange) (stock code: 1830), Branding China Group Limited (stock code: 8219) (a company listed on the Hong Kong Stock Exchange) and Richly Field China Development Limited (a company listed on the Hong Kong Stock Exchange) (stock code: 313); and an independent director of SGOCO Group, Ltd. (a company listed on the Nasdaq Stock Market) (stock code: SGOC). Ms. Hsu has been working with Ernst & Young for 18 years and was a partner of Ernst & Young before she retired from the firm in February 2011. Ms. Hsu is a fellow member of the Hong Kong Institute of Certified Public Accountants and a member of the American Institute of Certified Public Accountants. Ms. Hsu graduated from The Chinese University of Hong Kong with a bachelor degree in business administration in 1992. Ms. Hsu has retired from Ernst & Young before we engaged it as our reporting accountants in 2013 and she has not been involved in the provision of any professional services to us as a reporting accountant prior to her appointment to the Board.

Save as disclosed in this prospectus, each of our Directors has confirmed that there is no other information in relation to his or her appointment which is to be disclosed pursuant to Rule 13.51(2) of the Hong Kong Listing Rules.

BOARD OF SUPERVISORS

<u>Name</u>	<u>Age</u>	<u>Date of appointment to our Board of Supervisors</u>
Ms. Gu Tao	38	28 January 2011
Mr. Ye Yongguan	46	9 June 2013
Ms. Guo Zhuojun	32	9 June 2013

Ms. Gu Tao (顧濤), aged 38, is the chairperson of the board of Supervisors and was appointed on 28 January 2011. Ms. Gu is the head of business development centre of our Company. Prior to joining our Group in 2004, Ms. Gu has worked in the customer service department in Jinjiang Trade Advertising Co., Ltd.* (晉江經貿廣告公司). Ms. Gu graduated in Huaqiao University (華僑大學) with diploma in sales and accounting in 1995.

Mr. Ye Yongguan (葉永觀), aged 46, was appointed to the board of Supervisors on 9 June 2013. Mr. Ye has around 20 years of experience in management. He is general manager of Quanzhou Fuyou Chemical Co., Ltd.* (泉州輔友化工有限公司). Prior to that, Mr. Ye has worked for Fujian Fuwei Co., Ltd. (福建福維股份有限公司) (formerly known as “Fujian Textile and Chemical Fibre Group Co., Ltd. (福建紡織化纖集團有限公司)”) and has been appointed as the head of research centre, deputy chief of the technical centre and the general manager of a subsidiary of Fujian Fuwei Co., Ltd., respectively. He qualified as a senior engineer in December 2001. Mr. Ye obtained from Fuzhou University both his master in chemical engineering in 2007 and his bachelor degree in chemistry in 1988.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Ms. Guo Zhuojun (郭卓君), aged 32, was appointed to the Board of Supervisors on 9 June 2013. Ms. Guo has around 10 years of experience in management. Ms. Guo was the general manager of Xiamen Xing Zhi Rui Technology, Co., Ltd.* (廈門興智瑞科技有限公司) from November 2003 to May 2008. Subsequently, she has founded several private companies which were engaged in the provision of enterprise management solutions business and she is the general manager of these companies. Ms. Guo has been undertaking the postgraduate programme at the College of Economics of Xiamen University (廈門大學經濟學院) since 2011.

SENIOR MANAGEMENT

Mr. Ding Hui is the general manager of our Company. We are of the view that a chief executive officer is a position equivalent to the general manager of a PRC company.

Mr. Ding Canyang is the general manager of Shanghai Nuoqi.

For details of the background of Mr. Ding Hui and Mr. Ding Canyang, please refer to the paragraph headed “Executive Directors” in this section.

Mr. Au Yeung Ho Yin (歐陽浩然), aged 30, joined our Company in June 2013 and was appointed as our chief financial officer in June 2013. He is responsible for the overall financial management and reporting of our Group. Prior to joining our Group, Mr. Au Yeung was the chief financial officer for two private companies from July 2010 to June 2013. Mr. Au Yeung worked for Ernst & Young from November 2006 to June 2010. Mr. Au Yeung was admitted as a graduate member of the Hong Kong Institute of Chartered Secretaries in August 2012 and has been a member of the Hong Kong Institution of Certified Public Accountants since May 2010. Mr. Au Yeung received a bachelor degree in business management from University of Newcastle Upon Tyne in July 2006.

Ms. Zhong Guichen (鍾閨陳), aged 50, is the financial controller of our Company since December 2007. She is responsible for financial management and internal control of our Group. Ms. Zhong has more than 11 years of experience in auditing and accounting. Prior to joining our Group, Ms. Zhong has worked as the financial controller of Yake (China) Co., Ltd.* (雅客(中國)有限公司). She was the finance manager of K-Boxing Men’s Wear Co., Ltd. (勁霸男裝股份有限公司) from December 2002 to July 2006. Ms. Zhong was accredited as an International Certified Senior Public Accountant by American Certification Institution in August 2010 and has been a qualified accountant in the PRC since November 1993. Ms. Zhong received a bachelor degree in economic management through distance learning from the Party School of the Central Committee of C.P.C. (中央黨校) in December 1996.

COMPANY SECRETARY

Mr. Au Yeung Ho Yin was appointed as the company secretary of our Company on 25 July 2013. For details of Mr. Au Yeung’s background, please refer to the sub-section headed “— Senior Management” in this section.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

REMUNERATION OF OUR DIRECTORS AND SUPERVISORS

Our Company reimburses our Directors and our Supervisors for expenses which are necessarily and reasonably incurred while providing services to our Company or executing their functions in relation to our operation. The executive Directors are also our employees and receive, in their capacity as our employees, compensation in the form of salaries and other allowances and benefits in kind.

During the Track Record Period, the aggregate amounts of remuneration (including housing allowances, other allowances and benefits in kind) which were paid to our Directors and Supervisors during the year ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013 were approximately RMB776,000, RMB1.1 million, RMB1.1 million and RMB624,000, respectively.

Under the existing arrangements currently in force, the aggregate remuneration (including housing allowances, other allowances and benefits in kind) payable to our Directors and Supervisors for the year ended 31 December 2013 are estimated to be approximately RMB1.1 million and RMB117,500, respectively.

Further details of the terms of the above service agreements are set out in the section headed “Further information about our Directors and substantial Shareholders — Particulars of service agreements” in Appendix VIII to this prospectus.

BOARD COMMITTEES

Our Company established an audit committee, a remuneration committee and a nomination committee on 16 December 2013 in compliance with Rules 3.21 and 3.22 of the Hong Kong Listing Rules and the Corporate Governance Code as set out in Appendix 14 to the Hong Kong Listing Rules. The primary duties of our audit committee will be to review and supervise our financial reporting process and internal control system and to provide advice and comments to our Board. Our remuneration committee will consider and recommend to our Board the remuneration and other benefits paid to our Directors. The remuneration of our Directors is subject to regular review by our remuneration committee to ensure that the levels of their remuneration and compensation are appropriate. Our nomination committee will consider and recommend to our Board the candidates to be appointed as executive Directors and senior management staff.

The table below shows the summary of the respective position of each Director in the Board committees.

<u>Name of Director</u>	<u>Audit Committee</u>	<u>Remuneration Committee</u>	<u>Nomination Committee</u>
Executive Director			
Mr. Ding Hui	—	—	—
Mr. Ding Canyang	—	—	M
Mr. Chen Quanyi	—	M	—
Mr. Jin Wenge	—	—	—
Non-executive Director			
Mr. Han Huiyuan	—	—	—
Ms. Ding Lixia	—	—	—

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

<u>Name of Director</u>	<u>Audit Committee</u>	<u>Remuneration Committee</u>	<u>Nomination Committee</u>
Independent non-executive Director			
Mr. Qi Xiaozhai	M	C	M
Mr. Kong Yuquan	M	—	C
Ms. Hsu Wai Man, Helen	C	M	—

Note:

“C” represents chairman/chairlady of the relevant Board committee

“M” represents member of the relevant Board committee

CORPORATE GOVERNANCE CODE

Pursuant to code provision A.2.1 of the Corporate Governance Code, the responsibilities between the chairman and the chief executive officer should be segregated and should not be performed by the same individual. However, we do not have a separate chairman and chief executive officer and Mr. Ding Hui currently performs these two roles. Our Board believes that vesting the roles of both chairman and chief executive officer in the same person has the benefit of ensuring consistent leadership within our Group and enables more effective and efficient overall strategic planning for our Group. Our Board considers that the balance of power and authority for the present arrangement will not be impaired and this structure will enable our Company to make and implement decisions promptly and effectively. Our Board will continue to review and consider splitting the roles of chairman of our Board and chief executive officer of our Company at a time when it is appropriate and suitable by taking into account the circumstances of our Group as a whole.

MANAGEMENT PRESENCE IN HONG KONG

Pursuant to Rules 8.12 and 19A.15 of the Hong Kong Listing Rules, we must have a sufficient management presence in Hong Kong. This normally means that at least two of our executive Directors must be ordinarily resident in Hong Kong. Given that our business and operations are primarily located, managed and conducted in the PRC and none of the executive Directors are ordinarily resident in Hong Kong, we do not, and for the foreseeable future will not, have two executive Directors residing in Hong Kong.

Accordingly, we have applied to the Hong Kong Stock Exchange for a waiver from compliance with the requirements under Rules 8.12 and 19A.15 of the Hong Kong Listing Rules. See the section headed “Waiver from Compliance with the Hong Kong Listing Rules” in this prospectus for more details.

COMPLIANCE ADVISER

Our Company has appointed CCBI as its compliance adviser upon the Listing in compliance with Rules 3A.19 and 19A.05 of the Hong Kong Listing Rules. Our Company has entered into a compliance adviser’s agreement with CCBI, the material terms of which are summarised as follows:

- (a) our Company has appointed CCBI as its compliance adviser for the purpose of Rules 3A.19 and 19A.05 of the Hong Kong Listing Rules for a period commencing on the Listing Date and ending on the date on which our Company complies with Rule 13.46 of the Hong Kong

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Listing Rules in respect of the financial results for the first full financial year of our Group commencing after such Listing Date, or until the agreement is terminated, whichever is earlier;

- (b) CCBI shall provide our Company with services, including guidance and advice as to compliance with the requirements under the Listing Rules and applicable laws, rules, codes and guidelines;
- (c) our Company shall consult with and, if necessary, seek advice from CCBI on a timely basis in the following circumstances:
 - (i) before the publication of any regulatory announcement, circular or financial report;
 - (ii) where a transaction, which might be a notifiable or connected transaction, is contemplated including share issues and share repurchases;
 - (iii) where our Company proposes to use the proceeds of the Listing in a manner different from that detailed in this prospectus or where the business activities, developments or results of our Group deviate from any forecast, estimate, or other information in this prospectus;
 - (iv) where the Hong Kong Stock Exchange makes an inquiry of the listed issuer under Rule 13.10 of the Hong Kong Listing Rules;
- (d) our Company has agreed to indemnify CCBI for certain actions against it and losses incurred by it arising out of or in connection with the performance by CCBI of its duties under the agreement; and
- (e) our Company may terminate the appointment of CCBI as its compliance adviser only if its work is of an unacceptable standard as determined under the Hong Kong Listing Rules and the relevant laws and regulations or if there is a material dispute (which cannot be resolved within 30 days) over fees payable to it as permitted by Rule 3A.26 of the Hong Kong Listing Rules. CCBI will have the right to resign or terminate its appointment by service of a three-month notice to our Company if our Company materially breaches the agreement.

SUBSTANTIAL SHAREHOLDERS

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, each of the following persons will, immediately following completion of the Global Offering (assuming that the Over-allotment Option is not exercised), have an interest or short position in our Shares or underlying Shares which would be required to be disclosed to our Company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group:

<u>Name of Shareholder</u>	<u>Nature of interest</u>	<u>Class</u>	<u>Number of Shares held after the Global Offering</u>	<u>Approximate percentage of shareholding in the relevant class of Shares after the Global Offering⁽¹⁾</u>	<u>Approximate percentage of shareholding in the total share capital of our Company after the Global Offering⁽²⁾</u>
Ding Hui	Beneficial owner	Domestic Shares	202,500,000	45.00%	33.75%
Ding Canyang	Beneficial owner	Domestic Shares	82,450,000	18.32%	13.74%

Notes:

- (1) The calculation is based on the percentage of shareholding in 450,000,000 Domestic Shares after the Global Offering.
- (2) The calculation is based on the total number of 600,000,000 Shares in issue after the Global Offering.

Save as disclosed herein, our Directors are not aware of any person who will, immediately following the Global Offering, have an interest or short position in Shares or underlying Shares which would be required to be disclosed to our Company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group.

We are not aware of any arrangement which may result in any change of control in our Company at any subsequent date.

SHARE CAPITAL

As at the Latest Practicable Date, the registered share capital of our Company was RMB90.0 million comprising 450,000,000 domestic shares with a nominal value of RMB0.20 each.

Assuming the Over-allotment Option is not exercised, the registered share capital of our Company immediately following completion of the Global Offering will be RMB120.0 million, comprising 450,000,000 Domestic Shares and 150,000,000 H Shares, with a nominal value of RMB0.20 each:

<u>Number of Shares</u>	<u>Description of Shares</u>	<u>Approximate percentage of registered share capital (%)</u>
450,000,000	Domestic Shares	75.00
<u>150,000,000</u>	H Shares to be issued under the Global Offering	<u>25.00</u>
<u><u>600,000,000</u></u>	Total	<u><u>100.00</u></u>

Assuming the Over-allotment Option is exercised in full, the registered share capital of our Company immediately following completion of the Global Offering will be RMB124.5 million, made up of 450,000,000 Domestic Shares and 172,500,000 H Shares, with a nominal value of RMB0.20 each:

<u>Number of Shares</u>	<u>Description of Shares</u>	<u>Approximate percentage of registered share capital (%)</u>
450,000,000	Domestic Shares	72.29
<u>172,500,000</u>	H Shares to be issued under the Global Offering	<u>27.71</u>
<u><u>622,500,000</u></u>	Total	<u><u>100.00</u></u>

The above tables assume the Global Offering becomes unconditional and is completed.

OUR SHARES

Our Domestic Shares and H Shares are both ordinary shares in the share capital of our Company, rank pari passu in all respects, and will qualify and rank equally for all dividends or other distributions declared, made or paid. H Shares may only be subscribed for and traded in Hong Kong dollars. Domestic Shares, on the other hand, may only be subscribed for in RMB. Apart from certain qualified domestic institutional investors in the PRC, H Shares generally cannot be subscribed for by or traded between legal or natural persons of the PRC. Domestic Shares, on the other hand, can only be subscribed for by and traded between legal or natural persons of the PRC. In general, we will pay all dividends in respect of H Shares in Hong Kong dollars and all dividends in respect of Domestic Shares in RMB.

Domestic Shares shall not be transferred within one year from the Listing Date while H Shares to be issued under the Global Offering would not be subject to such restriction.

SHARE CAPITAL

Domestic Shares are held by domestic investors and therefore these Shares are different from H Shares to be issued under the Global Offering in the way of dispatching Notice and Financial Report to Shareholders, dispute resolution, the method of Share transfer, the Shareholders' tax burden, foreign exchange administration and etc., the relevant provisions, laws and regulations are summarised in Appendix V and Appendix VI of this prospectus.

Save for the Global Offering, we do not propose to carry out any public or private issue or to place securities simultaneously with the Global Offering or within the next six months. We have not approved any share issue plans other than the Global Offering.

CONVERSION OF OUR DOMESTIC SHARES INTO H SHARES

Conversion of Domestic Shares

According to the stipulations by the State Council's securities regulatory authority and the Articles of Association, our Domestic Shares may be converted into H Shares and such H Shares may be listed or traded on an overseas stock exchange provided that prior to the conversion and trading of such shares, any requisite internal approval processes shall have been duly completed and the approval from the relevant PRC regulatory authorities, including the CSRC, shall have been obtained. In addition, such conversion, trading and listing shall in all respects comply with the regulations prescribed by the State Council's securities regulatory authorities and the regulations, requirements and procedures prescribed by the relevant overseas stock exchange. If any of our Domestic Shares are to be converted and traded as H Shares on the Hong Kong Stock Exchange, such conversion will need to be approved by the relevant PRC regulatory authorities including the CSRC. Approval of the Hong Kong Stock Exchange is required for the listing of such converted shares on the Hong Kong Stock Exchange. Based on the methodology and procedures for the conversion of our Domestic Shares into H Shares as described in this section, we can apply for the listing of all or any portion of our Domestic Shares on the Hong Kong Stock Exchange as H Shares in advance of any proposed conversion to ensure that the conversion process can be completed promptly upon notice to the Hong Kong Stock Exchange and delivery of shares for entry on the H Share register. As any listing of additional shares after our initial listing on the Hong Kong Stock Exchange is ordinarily considered by the Hong Kong Stock Exchange to be a purely administrative matter, it does not require such prior application for listing at the time of our initial listing in Hong Kong. No class shareholder voting is required for the listing and trading of the converted shares on an overseas stock exchange. Any application for listing of the converted shares on the Hong Kong Stock Exchange after our initial listing is subject to prior notification by way of announcement to inform Shareholders and the public of any proposed conversion.

Mechanism and Procedures for Conversion

After all the requisite approvals have been obtained, the following procedures will need to be completed in order to effect the conversion: the relevant Domestic Shares will be withdrawn from the Domestic Share register and we will re-register such Shares on our H Share register maintained in Hong Kong and instruct the H Share Registrar to issue H Share certificates. Registration on our H Share register will be conditional on (a) our H Share Registrar lodging with the Hong Kong Stock Exchange a letter confirming the proper entry of the relevant H Shares on the H Share register and the due dispatch of H Share certificates and (b) the admission of the H Shares to trade on the Hong Kong Stock

SHARE CAPITAL

Exchange complying with the Hong Kong Listing Rules and the General Rules of CCASS and the CCASS Operational Procedures in force from time to time. Until the converted shares are re-registered on our H Share register, such Shares would not be listed as H Shares.

TRANSFER OF SHARES ISSUED PRIOR TO LISTING DATE

The PRC Company Law provides that in relation to the Hong Kong Public Offering of a company, the shares issued by a company prior to the Hong Kong Public Offering of shares shall not be transferred within a period of one year from the date on which the publicly offered shares are traded on any stock exchange. Accordingly, Shares issued by our Company prior to the Listing Date shall be subject to this statutory restriction and not to be transferred within a period of one year from the Listing Date.

REGISTRATION OF SHARES NOT LISTED ON OVERSEAS STOCK EXCHANGE

According to 《關於境外上市公司非境外上市股份集中登記存管有關事宜的通知》(the Notice of Centralised Registration and Deposit of Non-overseas Listed Shares of Companies Listed on an Overseas Stock Exchange) issued by the CSRC, an overseas listed company is required to register its shares that are not listed on the overseas stock exchange with China Securities Depository and Clearing Corporation Limited within 15 Business Days upon Listing.

GENERAL MANDATE TO ISSUE SHARES

Subject to completion of the Global Offering, and subject to compliance with the applicable PRC laws, the Articles, the requirements under the Hong Kong Listing Rules and the approvals by CSRC and the Hong Kong Stock Exchange (if applicable), our Board has been granted a general mandate to allot and issue Domestic Shares and/or H Shares at any time within a period up to the date of the conclusion of the next annual general meeting of our Shareholders or the date on which our Shareholders pass a special resolution to revoke or change such mandate whichever is earlier, upon such terms and conditions and for such purposes and to such persons as our Board may in their absolute discretion deem fit, and to make necessary amendments to the Articles, provided that, the number of Domestic Shares and/or H Shares to be issued shall not respectively exceed 20% of the number of Domestic Shares and/or H Shares in issue as at the Listing Date.

For more details of the general mandate, please see “Appendix VIII — Statutory and General Information — 4. Resolutions passed at our extraordinary Shareholders’ meeting held on 16 December 2013”.

CORNERSTONE INVESTOR

THE CORNERSTONE PLACING

As part of the International Offering, we and the Sole Global Coordinator have entered into a corporate investor agreement dated 16 December 2013 (“the Corporate Investor Agreement”) with Joy Business Investments Limited (“Joy Business”) as investor and Evergreen International Holdings Limited (“Evergreen”) as guarantor, pursuant to which Joy Business agreed to subscribe at the Offer Price for such number of Offer Shares (the “Subscription”) as shall be equal to the lower of (i) the maximum number of Offer Shares that may be purchased by an aggregate amount of up to HK\$64.0 million (exclusive of brokerage, SFC transaction levy and the Stock Exchange trading fee) (“Investment Amount”) at the Offer Price; (ii) the number of Offer Shares equal to 4.9% of our Company’s entire issued share capital upon completion of the Global Offering; and (iii) the maximum number of Offer Shares that may be purchased by Joy Business such that the Subscription shall not constitute a discloseable transaction under Chapter 14 of the Hong Kong Listing Rules for Evergreen, and rounded down to the nearest whole board lot of 1,000 H Shares (the “Cornerstone Placing”).

Based on the Global Offering of 150,000,000 H Shares and the trading price of the shares of Evergreen at the closing of business on 20 December 2013, and assuming an Offer Price of HK\$2.46 (being the mid-point of the indicative Offer Price range stated in this prospectus), the total number of H Shares to be subscribed for by Joy Business would be approximately 26,106,000, representing approximately 17.34% of the Offer Shares and 4.34% of the Shares in issue upon the completion of the Global Offering, assuming that the Over-allotment Option is not exercised.

Each of Joy Business and Evergreen is an Independent Third Party. Details of the actual number of Offers Shares to be allocated to the Joy Business will be disclosed in the allotment results announcement to be issued by our Company on or around 8 January 2014.

The Cornerstone Placing forms part of the International Offering. The Offer Shares to be subscribed for by Joy Business will not be affected by (i) any re-allocation of the Offer Shares between the International Offering and the Hong Kong Public Offering in the event of over-subscription under the Hong Kong Public Offering as described in the section headed “Structure of the Global Offering — Hong Kong Public Offering” in this prospectus or (ii) any exercise of the Over-allotment Option. The Offer Shares to be subscribed for by Joy Business will rank *pari passu* in all respects with the other fully paid H Shares in issue and will be counted towards the public float of our Company. Neither Joy Business nor Evergreen will subscribe for any Offer Shares under the Global Offering (other than and pursuant to the Corporate Investor Agreement). Upon the completion of the Global Offering, neither Joy Business nor Evergreen will have any board representation in our Company, nor will any of them become our substantial shareholder.

CORNERSTONE INVESTOR

The information sets out below has been provided by Joy Business and Evergreen in connection with the Cornerstone Placing:

Joy Business is a company incorporated in the British Virgin Islands which is mainly engaged in investment holding. It is an indirect wholly-owned subsidiary of Evergreen, a company incorporated in the Cayman Islands and listed on the Main Board of the Stock Exchange (stock

CORNERSTONE INVESTOR

code: 238). Evergreen is one of the leading menswear enterprises and brands operators in the PRC owning and managing two brands, V.E. DELURE and TESTANTIN, covering the middle-upper to high-end segments of the menswear market.

CONDITIONS PRECEDENT

The subscription obligation of Joy Business is subject to, among other things, the following conditions precedent:

- (a) the Hong Kong Underwriting Agreement and the International Underwriting Agreement having become unconditional and not having been terminated (in accordance with their respective original terms or as subsequently varied by agreement of the relevant parties);
- (b) the Listing Committee having granted the listing of, and permission to deal in, the H Shares and that such approval or permission not having been revoked; and
- (c) the respective representations, warranties and undertakings of Joy Business, Evergreen and our Company in the Corporate Investor Agreement remaining accurate and true in all respects and not misleading and there being no material breach of the Corporate Investor Agreement on the part of the Joy Business and/or Evergreen; and
- (d) no laws having been enacted or promulgated which prohibit the consummation of the transactions contemplated in the Hong Kong Public Offering, the International Offering or the transactions contemplated herein and there having been no orders or injunctions from a court of competent jurisdiction in effect precluding or prohibiting consummation of such transactions.

RESTRICTIONS ON DISPOSALS BY THE CORNERSTONE INVESTOR

Joy Business covenants with and undertakes to our Company and the Sole Global Coordinator that:

- (a) without the prior written consent of our Company and the Sole Global Coordinator, it will not at any time during the period of six months following the Listing Date (the “Lock-up Period”), directly or indirectly, dispose of any of the H Shares subscribed for by it and any shares or other securities of our Company deriving from the these H Shares (the “Relevant Shares”); and
- (b) in the event of a disposal of any Relevant Shares at any time after the Lock-up Period, it will use all reasonable endeavours to ensure that any such disposal will not create a disorderly or false market for the Shares and is otherwise in compliance with the Companies Ordinance and the SFO.

FINANCIAL INFORMATION

You should read the following discussion and analysis together with our consolidated financial statements and the notes thereto as at and for the year ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2012 and 2013 included in the Accountants' Report set out in Appendix I to this prospectus. The Accountants' Report has been prepared in accordance with IFRS.

The following discussion and analysis contain certain forward-looking statements that reflect our current views with respect to future events and financial performance that involve risks and uncertainties. These statements are based on assumptions and analyses made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. Please see the section headed "Risk Factors" in this prospectus.

OVERVIEW

We are a rapidly expanding men's fashion casual wear apparel company in the PRC. We offer a wide range of men's fashion casual wear products such as jackets, sweaters, shirts, T-shirts, trousers, shoes and accessories under our own brand, N&Q. We target customers who are primarily young and middle-aged men from the age of 25 to 40 in the PRC.

We are one of the earliest companies in the PRC to adopt a market-driven fast fashion business model that integrates key elements of the SPA model. We focus on the management of retail points and integration of key components of the retail and supply chain such as product planning and design, production and quality control, logistics and sales. Under our business model, we develop and promote our strong customer membership programme to collect useful consumer information from our substantial membership base across our self-operated and franchised retail points. We analyse and apply this consumer information (including spending history and preferences) in our product design and development. Through these steps, we are able to identify the latest market needs and changing consumer trends so as to quickly design, develop and bring new commercially viable and popular products to market.

Our business model allows our retail points to order products in smaller batches throughout the season according to the market demand, as opposed to placing a single large order pre-season. Under our "6-2-2" procurement model, we typically plan to procure approximately 60% of our total estimated demand ahead of the upcoming season, approximately 20% during the season itself for our more popular products and products with strong potential sales growth based on actual consumer demand, and another approximately 20% for our best-selling products and products modified from existing best-selling products with new supplementary features in order to capture strong market demand. We have effectively managed our outsourced production process and monitored customer sales at retail points under our management information system, while closely tracking real customer demand. Our procurement model also allows us to reduce the risk of excessive inventory.

We have developed an attractive customer membership programme which had as at 30 June 2013 approximately 1,054,000 registered members accumulated since its establishment. We offer membership benefits such as product discounts, fashion advice, sales previews, personal invitations to our member-only events and miscellaneous gifts. Our large customer base provides us with a reliable source to gather

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useful market and customer information which we have applied in the design and development of our new products, customer services, and sales and marketing activities. We generate a significant portion of our revenue from sales to members of our customer membership programme.

Our IEAP System, an integrated management information system, improves the management of our supply chain and retail points. Our management information system provides us with immediate access to inventory, sales and other operational data at our self-operated and franchised retail points. As a result, we are able to make informed decisions on production planning, sales and marketing and inventory management based on this real-time data. Our management information system also allows us to monitor and coordinate the procurement and delivery of our inventory between our warehouses and retail points on a real time basis.

As at 31 October 2013, we had developed a strategic network of 438 retail points across China, comprising 225 self-operated retail points and 213 franchised retail points. These 225 self-operated retail points comprised department store concession counters, stand-alone stores and stores under cooperative arrangement. We believe that a network comprising a mix of both self-operated and franchised retail points is critical to the success of our business. Our franchisees bring local market knowledge that contributes to the success of our retail points in new markets. We have adopted a set of standard management practices for both our self-operated and franchised retail points. Our comprehensive guidelines on retail point management cover branding, visual merchandising, personnel recruiting, training and staff performance evaluation. We also have specific policies governing the use of our N&Q brand, product image and positioning, the identification and selection of store sites, decoration and renovation, and new store opening procedures.

We grew rapidly during the Track Record Period. Our revenue increased from RMB322.2 million for the year ended 31 December 2010 to RMB572.1 million for the year ended 31 December 2012, representing a CAGR of 33.3%, and increased by RMB39.9 million, or 14.4%, from RMB276.2 million for the six months ended 30 June 2012 to RMB316.1 million for the six months ended 30 June 2013. Our net profit also grew significantly from RMB45.7 million for the year ended 31 December 2010 to RMB81.7 million for the year ended 31 December 2012, representing a CAGR of 33.7%. Our net profit further increased by RMB6.5 million, or 16.2%, from RMB40.2 million for the six months ended 30 June 2012 to RMB46.7 million for the six months ended 30 June 2013.

BASIS OF PRESENTATION

Our Company was first incorporated in the PRC on 14 October 2004 as a domestic company with limited liability and was transformed into a joint stock company with limited liability on 22 January 2008.

The consolidated financial statements of our Group for the Track Record Period has been prepared in accordance with IFRSs and include the results of operations of our Company and two wholly-owned subsidiaries, namely, Shanghai Nuoqi and Quanzhou Nuoqi, for the Track Record Period. The results of the two subsidiaries are consolidated from the date of acquisition, being the date on which our Company obtained control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

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PRINCIPAL FACTORS AFFECTING OUR RESULTS OF OPERATIONS

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

Economic Growth, Urbanisation, and Consumer Spending in the PRC

Our financial condition and results of operations are affected by the macro-economic conditions and increasing urbanisation and consumer spending in the PRC. We have all of our operations and make all of our product sales in the PRC. China has experienced significant economic growth in recent years, achieving a CAGR for its nominal GDP of approximately 13.4% from 2008 to 2012 according to the National Bureau of Statistics. The economic growth in the PRC has driven urbanisation, per capita urban household disposable income and consumer spending, which, in turn, affect the market demand for our products and our results of operations. According to Frost & Sullivan, from 2008 to 2012, China's total urban population increased from 624.2 million to 712.2 million, and its urbanisation rate increased from 47.0% to 52.6%. From 2008 to 2012, per capita urban household annual disposable income increased from RMB15,780.8 to RMB24,565.0, representing a CAGR of 11.7% for this period. We believe that consumer spending is driven by per capita urban household disposable income. The total retail sales of consumer goods in the PRC increased to RMB20,716.7 billion in 2012 from RMB11,483.0 billion in 2008, representing a CAGR of 15.9%, according to Frost & Sullivan. Furthermore, we believe that consumers in the urban areas of China tend to spend more on branded lifestyle products as their disposable income increases. As China is expected to have an urban population of 866.1 million with an urbanisation rate of 62.4% and a per capita urban household annual disposable income of approximately RMB46,800.0 by 2017, our results of operations will continue to benefit from this economic growth.

Product Mix and Product Pricing

Our product mix and the prices of our products directly affect our revenue and gross profit. We offer a wide range of products primarily targeting young and middle-aged men from the age of 25 to 40 living in the PRC. We have conducted in-house, and outsourced to ODMs, the design and development of a wide range of products in order to cater to a wide range of customer preferences. Furthermore, we consider the following factors in determining our pricing strategy: (i) procurement costs of our products, (ii) historical information for our product sales, (iii) our brand recognition, (iv) the characteristics and maturity of our products, and (v) the prices of our competitors' products. We are able to further increase the prices of our products as a result of our increased brand recognition and product maturity. Our ability to effectively develop new products to change our product mix and adjust product prices in accordance with consumer demand and our relevant pricing strategy directly affect our gross profit and financial condition.

Size and Performance of Our Sales Network

The growth of our revenue and profit depend on the size and performance of our sales network. We believe that a strategic network comprising a mix of both self-operated and franchised retail points is crucial to our financial performance. The mix of self-operated and franchised retail points depends on a series of factors including capital expenditure, floor area, locations, types and performance of retail points, targeted customers, as well as marketing strategies. Our ability to increase revenue is directly affected by the number, mix and performance of the retail points operated by us and franchisees. The gross profit margin of our self-operated retail points was generally higher than that of our franchised

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retail points as the products in our self-operated retail points are sold to end customers at retail prices, while the products are sold to the franchisees at wholesale prices. The mix of self-operated and franchised retail points affect our overall gross profit margin. Furthermore, the operating profit margin of our self-operated stand-alone stores is generally higher than that of franchised retail points due to the same reason for the difference in their gross profit margins. The operating profit margin of franchised retail points is generally higher than that of our self-operated department store concession counters primarily because we pay the monthly concession fees to the department stores under relevant agreements. During the Track Record Period, we expanded our sales network and increased the total number of retail points from 225 as at 31 December 2010 to 366 as at 31 December 2011, further to 420 as at 31 December 2012 and further to 432 as at 30 June 2013, while adjusting the mix of retail points in accordance with our expansion plan. As a result, our revenue and profit increased accordingly. The total number of our retail points increased to 438 as at 31 October 2013. Furthermore, we aim to establish 58 new retail points for the two months ending 31 December 2013 and 200 new retail points for the year ending 31 December 2014, respectively.

Cost of Outsourced Design and Production

We outsource the design and production of our products to OEMs and ODMs. We select OEMs and ODMs mainly based on a series of factors, including, among others, product quality, product design, production capacity, delivery timing, and costs of design and production. We generally engage OEMs and ODMs which have maintained long-term business relationships with us and have strong capacities to manufacture high-quality products to meet our needs and requirements. Cost of our outsourced design and production to OEMs and ODMs accounted for approximately 99.8%, 99.5%, 99.2%, 99.2% and 99.1% of our cost of sales for the year ended 31 December 2010, 2011 and 2012 and for the six months ended 30 June 2012 and 2013, respectively, and any changes will significantly affect our results of operation. Costs of labour and raw materials and other expenses directly affect our cost of OEM and ODM and hence indirectly affect our cost of sales. In recent years, the costs of outsourced design and production have increased due to various factors, such as inflation and rising costs of labour and raw materials. As a result, our cost of sales has also increased. We have enhanced our management of supply chain and our ability to control production costs as well as leverage our bargaining power with OEMs and ODMs as we expand our operation. Our performance in the future will continue to depend on our ability to pass cost increases to our end consumers and franchisees and our ability to find and manage qualified OEMs and ODMs who can fulfil our needs at commercially acceptable prices. Please refer to the paragraph headed “Risk Factors — Risks Relating to Our Business — Increase in costs of sales such as costs of raw materials and labour in the PRC, may adversely affect our business and our profitability” in this prospectus.

Seasonality

Our sales and inventory levels are affected by the changes in consumer behaviour due to seasonal effects. Our business and operating results are subject to seasonal fluctuations. We generally record higher levels of sales for our winter-and-fall product collections and lower levels of sales for our spring-and-summer product collections because the average selling price for our winter-and-fall apparel products is generally higher than that for our spring-and-summer apparel products. In addition, we record higher sales typically around holiday seasons such as the Chinese Labour Day, the Chinese National Day and the Chinese New Year. Comparisons of sales and operating results over any interim periods are not necessarily meaningful and cannot be relied on as indicators of our performance.

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Furthermore, our business is also susceptible to unexpected and abnormal changes in climate. A warm winter may affect the sales of our winter products, while a cool summer may affect the sales of our summer products. Please refer to the paragraph headed “Risk Factors — Risks Relating to Our Business — Our business is susceptible to seasonal fluctuations and unexpected and abnormal changes in climate” in this prospectus.

Competition

Our ability to differentiate ourselves from our competitors also directly affects our financial condition and results of operations. The men’s fashion casual wear industry in the PRC is highly competitive with an increasing number of local and international players, who compete in, among other things, product mix, product design, sales network coverage, and marketing and promotion. Local brands have advantages in production price and sales network and are increasingly competitive in mid-to high-end markets. Many of our competitors have greater financial resources and operational experience as well as more extensive sales network than us. We must continue to meet these competitive challenges by implementing business strategies to develop new products that meet the latest fashion trends and customer preferences. We believe that the intense competition in the PRC men’s fashion casual wear industry will continue in the future and our business and results of operations will be significantly affected by our ability to remain competitive in this industry.

CRITICAL ACCOUNTING POLICIES, ESTIMATES AND JUDGMENTS

The methods, estimates and judgements 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 judgements on matters that are inherently uncertain. The following sections discuss the accounting policies applied in preparing our financial information that we believe are most dependent on the application of these estimates and judgements, and, in addition, certain other accounting policies that we believe are material to an understanding of our financial information.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to our Group and when the revenue can be measured reliably, on the following bases:

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that our Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) rental income, on a time proportion basis over the lease terms;
- (c) interest income, on an accrual basis using the effective interest rate method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and
- (d) dividend income, when the shareholders’ right to receive payment has been established.

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Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Inventories

Inventories are stated at the lower of cost and net realisable value after making due allowances for obsolete or slow-moving items. Cost is determined on the weighted average basis. Net realisable value is based on the estimated selling prices less any estimated costs to be incurred to completion and disposal.

Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where our Group is the lessor, assets leased by our Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where our Group is the lessee, rentals payable under the operating leases net of any incentives received from the lessor are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	5%
Leasehold improvements	Over the shorter of lease terms and 25%
Furniture, fixtures and office equipment	10% to 20%
Motor vehicles	12.5%

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Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each of the end of the reporting periods.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sale proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building and equipment under construction, which are stated at cost less any impairment losses, and are not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings spending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

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CONSOLIDATED RESULTS OF OPERATIONS

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

Consolidated Income Statements

	Year ended 31 December			Six months ended 30 June	
	2010	2011	2012	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
REVENUE	322,166	467,778	572,138	276,191	316,099
Cost of sales	(194,819)	(263,599)	(313,245)	(152,251)	(169,754)
Gross profit	127,347	204,179	258,893	123,940	146,345
Other income	3,574	9,821	8,253	3,179	6,769
Selling and distribution costs	(37,696)	(74,295)	(103,917)	(49,800)	(58,320)
Administrative expenses	(27,319)	(38,538)	(47,407)	(19,871)	(28,429)
OPERATING PROFIT	65,906	101,167	115,822	57,448	66,365
Finance costs	(4,510)	(9,834)	(12,979)	(5,758)	(8,198)
Finance income	639	1,614	6,003	1,959	3,957
Finance costs, net	(3,871)	(8,220)	(6,976)	(3,799)	(4,241)
PROFIT BEFORE TAX	62,035	92,947	108,846	53,649	62,124
Income tax expense	(16,373)	(24,589)	(27,148)	(13,464)	(15,418)
PROFIT FOR THE YEAR ATTRIBUTABLE TO THE OWNERS OF THE COMPANY . .	<u>45,662</u>	<u>68,358</u>	<u>81,698</u>	<u>40,185</u>	<u>46,706</u>

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DESCRIPTION OF THE MAJOR COMPONENTS OF OUR RESULTS OF OPERATIONS

Revenue

We generate revenue primarily from (i) retail sales to end customers in our self-operated retail points; (ii) wholesales to franchisees, who in turn sell our products to end customers through their retail points; and (iii) others which mainly representing online sales. Revenue represents net invoiced value of goods sold, after allowances for returns and trade discounts.

The table below sets forth our revenue and average revenue per store by sales channel for the periods indicated:

	Year ended 31 December			Six months ended 30 June	
	2010	2011	2012	2012	2013
				(unaudited)	
Self-operated retail points					
<i>Stand-alone stores</i>					
Revenue (RMB'000)	132,263	152,428	160,756	81,686	74,928
% of total revenue	41.1%	32.6%	28.1%	29.6%	23.7%
Number of retail points	55	55	56	57	50
Average revenue per store (RMB'000)	2,405	2,771	2,871	1,433	1,499
<i>Department store concession counters</i>					
Revenue (RMB'000)	2,102	16,439	49,255	22,451	46,421
% of total revenue	0.7%	3.5%	8.6%	8.1%	14.7%
Number of retail points	29	100	142	118	155
Average revenue per store (RMB'000)	72	164	347	190	299
<i>Stores under cooperative arrangement</i>					
Revenue (RMB'000)	—	—	—	—	175
% of total revenue	—	—	—	—	0.1%
Number of retail points	—	—	—	—	5
Average revenue per store (RMB'000)	—	—	—	—	35
Subtotal of self-operated retail points					
Revenue (RMB'000)	134,365	168,867	210,011	104,137	121,524
% of total revenue	41.8%	36.1%	36.7%	37.7%	38.4%
Number of retail points	84	155	198	175	210
Average revenue per store (RMB'000)	1,600	1,089	1,061	595	579

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	Year ended 31 December			Six months ended 30 June	
	2010	2011	2012	2012	2013
				(unaudited)	
Franchised retail points					
Revenue (RMB'000)	185,900	282,105	338,461	163,927	174,700
% of total revenue	57.7%	60.3%	59.2%	59.4%	55.3%
Number of retail points	141	211	222	221	222
Average revenue per store (RMB'000) . .	1,318	1,337	1,525	742	787
Others					
Revenue (RMB'000)	1,901	16,806	23,666	8,127	19,875
% of total revenue	0.6%	3.6%	4.1%	2.9%	6.3%
Number of retail points	—	—	—	—	—
Average revenue per store (RMB'000) . .	—	—	—	—	—
Total					
Revenue (RMB'000)	<u>322,166</u>	<u>467,778</u>	<u>572,138</u>	<u>276,191</u>	<u>316,099</u>
Number of retail points	<u>225</u>	<u>366</u>	<u>420</u>	<u>396</u>	<u>432</u>

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The following table sets forth the revenue, sales volume and average selling price of our apparel and footwear products by sales channel for the periods indicated:

	Year ended 31 December			Six months ended 30 June	
	2010	2011	2012	2012	2013
				(unaudited)	
Apparel					
<i>Self-operated retail points</i>					
Revenue (RMB'000)	115,885	146,116	182,768	90,414	108,682
Sales volume ('000).	763	689	784	368	382
Average retail selling price (RMB)	152	212	233	246	285
<i>Franchised retail points</i>					
Revenue (RMB'000)	157,794	242,709	290,071	140,548	152,275
Sales volume ('000).	1,478	1,804	1,932	1,011	1,044
Average wholesale selling price (RMB)	107	135	150	139	146
Footwear					
<i>Self-operated retail points</i>					
Revenue (RMB'000)	12,382	14,575	17,841	9,351	8,850
Sales volume ('000).	57	61	64	33	28
Average retail selling price (RMB)	218	241	279	280	318
<i>Franchised retail points</i>					
Revenue (RMB'000)	19,822	26,680	32,506	16,048	16,496
Sales volume ('000).	123	155	174	91	86
Average wholesale selling price (RMB)	161	172	186	177	192

Note: For the year ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2012 and 2013, the revenue from sales of accessories was less than 5% of our total revenue, respectively, and the revenue, sales volume and average selling price of the accessories were not included in this table.

Our revenue increased from RMB322.2 million for the year ended 31 December 2010 to RMB572.1 million for the year ended 31 December 2012, representing a CAGR of 33.3%. Our revenue further increased by RMB39.9 million, or 14.4%, from RMB276.2 million for the six months ended 30 June 2012 to RMB316.1 million for the six months ended 30 June 2013. The growth in our revenue during the Track Record Period was primarily due to the continuing expansion of our retail sales network and the increase in the average selling prices of our products as we further enhanced our brand recognition and our product offering became more mature.

Our sales volume of the franchised retail points was higher than that of our self-operated retail points during the Track Record Period. The higher sales volume of the franchised retail points was mainly due to the larger gross floor area of franchised retail points as compared to that of our self-operated retail points which mainly include department store concession counters.

Others mainly consist of our sales of products directly through online retail websites before January 2012 and through a third-party e-commerce distributor after January 2012. The revenue from others increased from RMB1.9 million for the year ended 31 December 2010 to RMB23.7 million for

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the year ended 31 December 2012, representing a CAGR of 252.8%. The revenue from others further increased by RMB11.7 million or 144.6% from RMB8.1 million for the six months ended 30 June 2012 to RMB19.9 million for the six months ended 30 June 2013.

Year ended 31 December 2011 compared to year ended 31 December 2010

Our revenue increased by RMB145.6 million, or 45.2%, from RMB322.2 million for the year ended 31 December 2010 to RMB467.8 million for the year ended 31 December 2011, primarily due to the increase in revenue from wholesales to our franchisees and, to a lesser extent, the increase in revenue from our self-operated retail points.

Our revenue from wholesales to our franchisees increased by RMB96.2 million, or 51.8%, from RMB185.9 million for the year ended 31 December 2010 to RMB282.1 million for the year ended 31 December 2011, as a result of our expanded sales network of franchised retail point from 141 as at 31 December 2010 to 211 as at 31 December 2011 and an increase in the average wholesale selling price of our apparel products from RMB107 for the year ended 31 December 2010 to RMB135 for the year ended 31 December 2011 resulting from an increase of our average retail selling price.

Our revenue from retail sales in our self-operated retail points increased by RMB34.5 million, or 25.7%, from RMB134.4 million for the year ended 31 December 2010 to RMB168.9 million for the year ended 31 December 2011, primarily due to the increase in the average retail selling price of our apparel products from RMB152 for the year ended 31 December 2010 to RMB212 for the year ended 31 December 2011, and partially offset by a decrease in sales volume of products in self-operated retail points from 763,000 units for the year ended 31 December 2010 to 689,000 units for the year ended 31 December 2011. As our product brand and sales network continued to develop, in 2011 we decided to adjust and increase the general price levels of our products to reflect our enhanced brand positioning and further target customers with relatively high income level, which initially resulted in a small temporary reduction in sales volume during the year.

Our revenue from retail sales in our stand-alone stores increased from RMB132.3 million for the year ended 31 December 2010 to RMB152.4 million for the year ended 31 December 2011 and the average revenue per stand-alone store increased from RMB2.4 million to RMB2.8 million during the same period as a result of the increased average selling prices of our products.

Our revenue from retail sales in our department store concession counters increased from RMB2.1 million for the year ended 31 December 2010 to RMB16.4 million for the year ended 31 December 2011 as a result of the expansion of our retail sales network of department store concession counters from 29 as at 31 December 2010 to 100 as at 31 December 2011 and the fact that we opened new department store concession counters in the fourth quarter of 2010 with the product sales generated in 2011.

The revenue from our online sales increased by RMB15.7 million from RMB169,000 for the year ended 31 December 2010 to RMB15.9 million for the year ended 31 December 2011, primarily due to an increase in sales of our products through online retail shops from a low base for the year ended 31 December 2010 while we were in the early stage of our online sales initiative.

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Year ended 31 December 2012 compared to year ended 31 December 2011

Our revenue increased by RMB104.4 million, or 22.3%, from RMB467.8 million for the year ended 31 December 2011 to RMB572.1 million for the year ended 31 December 2012, primarily due to the increase in revenue from wholesales to our franchisees and retail sales in our self-operated retail points.

Our revenue from wholesales to our franchisees increased by RMB56.4 million, or 20.0%, from RMB282.1 million for the year ended 31 December 2011 to RMB338.5 million for the year ended 31 December 2012 as a result of (i) the increase in the average wholesale selling price of our apparel products from RMB135 for the year ended 31 December 2011 to RMB150 for the year ended 31 December 2012 resulting from an increase of our average retail selling price, and (ii) an increase in sales volume of products in franchised retail points from 1.8 million units for the year ended 31 December 2011 to 1.9 million units for the year ended 31 December 2012.

Our revenue from retail sales in our self-operated retail points increased by RMB41.1 million, or 24.4%, from RMB168.9 million for the year ended 31 December 2011 to RMB210.0 million for the year ended 31 December 2012, primarily due to (i) the increase in our average retail selling price of our apparel products from RMB212 for the year ended 31 December 2011 to RMB233 for the year ended 31 December 2012 because of our increased brand recognition and more matured product offering, and (ii) an increase in sale volume of products in self-operated retail points from 689,000 units to 784,000 units during the same period, primarily as a result of the expansion of our retail network. As part of our efforts to expand our sales network in the PRC, the number of self-operated retail points increased from 155 as at 31 December 2011 to 198 as at 31 December 2012. In particular, the number of department store concession counters increased from 100 as at 31 December 2011 to 142 as at 31 December 2012. Department store concession counters are the major sales channels in the apparel markets in Northern China. As a result, we have focused on opening department store concession counters to expand our sales network in Northern China.

Although our average revenue per stand-alone store and our average revenue per department store concession counter both increased from the year ended 31 December 2011 to the year ended 31 December 2012, the average revenue per store in respect of our self-operated retail point as a whole decreased during the same period. The major reasons are that, as compared to stand-alone stores, our department store concession counters generally occupy a smaller area than stand-alone stores and were newly opened retail points in the new markets that we were entering into, not as mature as our existing stand-alone stores. The revenue from our online sales increased by RMB6.7 million, or 42.1%, from RMB15.9 million for the year ended 31 December 2011 to RMB22.6 million for the year ended 31 December 2012, as our online sales increased after we began to engage and sell our products to a third-party ecommerce distributor in January 2012 at wholesale prices.

Six months ended 30 June 2013 compared to six months ended 30 June 2012

Our revenue increased by RMB39.9 million, or 14.4%, from RMB276.2 million for the six months ended 30 June 2012 to RMB316.1 million for the six months ended 30 June 2013, primarily due to the increase in revenue from wholesales to our franchisees and retail sales in our self-operated department store concession counters.

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Our revenue from wholesales to our franchisees increased by RMB10.8 million, or 6.6%, from RMB163.9 million for the six months ended 30 June 2012 to RMB174.7 million for the six months ended 30 June 2013 as a result of the increase in the average wholesale selling price of our apparel products from RMB139 for the six months ended 30 June 2012 to RMB146 for the six months ended 30 June 2013 due to an increase of the average retail selling price of our apparel products.

Our revenue from retail sales in our self-operated retail points increased by RMB17.4 million, or 16.7%, from RMB104.1 million for the six months ended 30 June 2012 to RMB121.5 million for the six months ended 30 June 2013, primarily due to (i) an increase in the average retail selling price of our apparel products from RMB246 for the six months ended 30 June 2012 to RMB285 for the six months ended 30 June 2013 because of our increased brand recognition and more matured product offering, and (ii) an increase in retail sales from our department store concession counters; partially offset by the decrease in retail sales from our stand-alone stores. As part of our efforts to expand our sales network in the PRC, the number of self-operated retail points increased from 175 as at 30 June 2012 to 210 as at 30 June 2013. In particular, the number of self-operated department store concession counters increased from 118 as at 30 June 2012 to 155 as at 30 June 2013 and our department store concession counters were in a more mature and developed stage. We closed six stand-alone stores during the same period to consolidate our sales network of stand-alone stores.

Our average revenue per stand-alone store and our average revenue per department store concession counter, as well as the average revenue per franchised retail point, increased from the six months ended 30 June 2012 to the six months ended 30 June 2013 primarily due to our increased average retail selling price as a result of our increased brand recognition and more matured product offering.

The revenue from our online sales increased by RMB11.5 million, or 149.4%, from RMB7.7 million for the six months ended 30 June 2012 to RMB19.2 million for the six months ended 30 June 2013, as we further increased our online sales to a third-party ecommerce distributor in the first half of 2013, which we only began to engage and sell our products through the distributor in January 2012.

Average Revenue per Retail Point

There was a general increasing trend of revenue from retail sales in stand-alone stores during the Track Record Period primarily because the average revenue per stand-alone store increased from RMB2.4 million for the year ended 31 December 2010 to RMB2.9 million for the year ended 31 December 2012 due to our increased average retail selling price as a result of our increased brand recognition and more matured product offering.

There was a general increasing trend of revenue from retail sales in department store concession counters during the Track Record Period primarily because the average revenue per department store concession counter increased from RMB72,000 for the year ended 31 December 2010 to RMB347,000 for the year ended 31 December 2012 due to our increased average retail selling price as a result of our increased brand recognition and more matured product offering.

Although our average revenue per stand-alone store and our average revenue per department store concession counter both increased from the year ended 31 December 2010 to the year ended 31 December 2012, the average revenue per store in respect of our self-operated retail point as a whole

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decreased during the same period. This was primarily due to the increase in the number of our department store concession counters which generally have smaller gross floor area and accordingly lower sales per retail point, which resulted in a lower revenue per self-operated retail point.

There was a general increasing trend of revenue from wholesales to our franchisees during the Track Record Period primarily because the average revenue per franchised retail point increased from RMB1.3 million for the year ended 31 December 2010 to RMB1.5 million for the year ended 31 December 2012 due to our increased average wholesale selling price as a result of our increased average retail selling prices as well as our increased brand recognition and more matured product offering.

The table below sets forth our revenue by product category for the periods indicated:

	Year ended 31 December						Six months ended 30 June			
	2010		2011		2012		2012		2013	
	Revenue (RMB'000)	% of total revenue	Revenue (RMB'000)	% of total revenue	Revenue (RMB'000)	% of total revenue	Revenue (RMB'000)	% of total revenue	Revenue (RMB'000)	% of total revenue
	(unaudited)									
Apparel	274,963	85.4%	405,359	86.7%	496,279	86.7%	239,025	86.5%	280,924	88.9%
Footwear	32,291	10.0%	41,347	8.8%	50,417	8.8%	25,412	9.2%	25,392	8.0%
Accessories	14,488	4.5%	21,072	4.5%	25,442	4.5%	11,754	4.3%	9,783	3.1%
Others	424	0.1%	—	—	—	—	—	—	—	—
Total	322,166	100%	467,778	100%	572,138	100%	276,191	100%	316,099	100%

The proportion of contribution by each product category to our total revenue remained stable during the Track Record Period and the sales of apparel products contributed over 85% of our revenue because we continued to focus on the development and sale of our apparel products, while we integrated apparel, footwear and accessories products to enhance our product portfolio, offering our end-customers one-stop shopping experience.

Cost of Sales

Our cost of sales consists primarily of cost of outsourced design and production, including cost of OEM and ODM, and inventory provision costs. The cost of OEM and ODM accounted for more than 99.1% of the cost of sales throughout the Track Record Period. The inventory provision costs represent provisions and allowances we make for obsolete and slow-moving inventories.

The following table sets forth our cost of sales for the periods indicated:

	Year ended 31 December						Six months ended 30 June			
	2010		2011		2012		2012		2013	
	RMB'000	% of total cost of sales	RMB'000	% of total cost of sales	RMB'000	% of total cost of sales	RMB'000	% of total cost of sales	RMB'000	% of total cost of sales
	(unaudited)									
Cost of OEM and ODM	194,441	99.8%	262,169	99.5%	310,872	99.2%	151,027	99.2%	168,259	99.1%
Inventory provision costs/(write-back of provision costs)	(49)	0.0%	1,430	0.5%	2,373	0.8%	1,224	0.8%	1,495	0.9%
Others	427	0.2%	—	—	—	—	—	—	—	—
Total	194,819	100%	263,599	100%	313,245	100%	152,251	100%	169,754	100%

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Gross Profit and Gross Profit Margin

The following table sets forth 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	
	Gross profit (RMB'000)	Gross profit margin	Gross profit (RMB'000)	Gross profit margin	Gross profit (RMB'000)	Gross profit margin	Gross profit (RMB'000)	Gross profit margin	Gross profit (RMB'000)	Gross profit margin
	(unaudited)									
Self-operated retail points	68,066	50.7%	98,008	58.0%	131,356	62.5%	63,054	60.5%	77,563	63.8%
Franchised retail points	58,753	31.6%	99,906	35.4%	122,292	36.1%	58,933	36.0%	64,737	37.1%
Others	528	27.8%	6,265	37.3%	5,245	22.2%	1,953	24.0%	4,045	20.4%
Total	127,347	39.5%	204,179	43.6%	258,893	45.3%	123,940	44.9%	146,345	46.3%

We generate our revenue from retail sales to end customers in our self-operated retail points at retail prices and wholesales to franchisees at discounts to our retail prices. As a result, our gross profit margin of retail sales in our self-operated retail points was higher than that for wholesales to our franchisees.

Our gross profit increased from RMB127.3 million for the year ended 31 December 2010 to RMB204.2 million for the year ended 31 December 2011, and further to RMB258.9 million for the year ended 31 December 2012. Our gross profit increased by RMB22.4 million, or 18.1%, from RMB123.9 million for the six months ended 30 June 2012 to RMB146.3 million for the six months ended 30 June 2013. Our gross profit margin was 39.5%, 43.6%, 45.3%, 44.9% and 46.3% for the year ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2012 and 2013, respectively. The increase in gross profit was mainly driven by our increased revenue and the improvement in gross profit margin. The improvement in gross profit margin, in turn, was primarily due to the increase in the gross profit margin of retail sales in our self-operated retail points as a result of the increase in the average retail selling price of our apparel products.

The gross profit margin of retail sales in our self-operated retail points increased from 50.7% for the year ended 31 December 2010 to 58.0% for the year ended 31 December 2011, and further to 62.5% for the year ended 31 December 2012. The gross profit margin of retail sales in our self-operated retail points further increased from 60.5% for the six months ended 30 June 2012 to 63.8% for the six months ended 30 June 2013. The increase in the gross profit margin of retail sales in our self-operated retail point was primarily as a result of the general increases in the average selling prices of our apparel products as our products become matured and more consumers recognised our brand.

The gross profit margin of wholesales to our franchisees increased steadily during the Track Record Period primarily due to a general increase in the average wholesale price of our apparel products sold to franchisees following the increase in the average retail selling price of our apparel products.

For the year ended 31 December 2010 and 2011, the gross profit margin of our online sales was relatively low compared to that of retail sales in our self-operated retail points, primarily because we generally sold specially developed products and certain out-of-season products through online retail shops at discounted prices to attract online customers. The lower gross profit margin of our online sales

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for the year ended 31 December 2012 and the six months ended 30 June 2013 was primarily because the products we sold to Shanghai Zhongou were at wholesale prices and certain out-of-season products were sold at discounted prices to attract online customers.

Other Income

The following table sets forth our other 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
				(unaudited)	
Membership fees	3,182	4,640	4,775	1,715	2,012
Government grants and subsidies	195	4,886	2,769	1,234	4,015
Management commission income	—	—	372	28	572
Rental income	197	292	313	191	170
Others	—	3	24	11	—
Total	<u>3,574</u>	<u>9,821</u>	<u>8,253</u>	<u>3,179</u>	<u>6,769</u>

Other income consists primarily of membership fees of our customer membership programme, government grants and subsidies, management commission income, rental income, and other income. Government grants and subsidies mainly consist of (i) grants by local governments as incentives for our local tax contribution as well as development of our business model; and (ii) subsidies by local governments as measures to attract investment in selected industries and participation in business events. The amounts of these grants and subsidies are subject to the discretions of local governments and there are no unfulfilled conditions or contingencies.

We subleased for rental income part of the leased properties used for our self-operated retail points which we did not occupy. We have obtained consents from relevant landlords and entered into supplemental agreements with them.

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Selling and Distribution Costs

The following table sets forth a breakdown of our selling and distribution costs 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
				(unaudited)	
Salaries and staff benefits	8,238	15,204	22,094	10,334	12,770
Store concession fees	1,373	8,316	21,469	9,609	20,170
Advertising and promotion expenses . . .	5,304	13,952	17,587	7,062	7,818
Rental expenses	6,395	8,646	11,913	5,750	5,816
Expenses for packaging materials and consumables	3,365	6,820	8,706	4,957	3,085
Decoration and renovation costs	564	2,955	5,248	2,632	2,913
Depreciation charge	3,335	4,157	5,144	2,533	2,509
Transportation costs	1,483	2,649	3,172	1,477	1,515
Subsidies for decoration and renovation costs	2,399	2,801	1,880	1,923	(1,590)
Others	5,240	8,795	6,704	3,523	3,314
Total	<u>37,696</u>	<u>74,295</u>	<u>103,917</u>	<u>49,800</u>	<u>58,320</u>

Selling and distribution costs consist primarily of (i) salaries and benefits for our sales and marketing staff; (ii) store concession fees for department store concession counters and store spaces; (iii) advertising and promotion expenses; (iv) rental expenses for our regional offices and stand-alone stores; (v) expenses for packaging materials and consumables incurred in our self-operated retail points; (vi) decoration and renovation costs for our self-operated stand-alone stores and department store concession counters; (vii) depreciation charge for our self-operated retail points; (viii) transportation costs; (ix) subsidies for certain decoration and renovation items for franchised retail points; and (x) other selling and distribution costs.

For the year ended 31 December 2010, 2011 and 2012 and for the six months ended 30 June 2012 and 2013, our selling and distribution costs were approximately 11.7%, 15.9%, 18.2%, 18.0% and 18.4% of our total revenue, respectively. Our selling and distribution costs increased during the Track Record Period mainly due to (i) the increase in store concession fees as a result of our expanded retail network of department store concession counters; (ii) the increase in salaries and staff benefits for our sales and marketing staff; and (iii) the increase in advertising and promotion expenses.

The store concession fees are mainly calculated monthly as certain percentages of the gross sale proceeds from department store concession counters. For the year ended 31 December 2010, 2011 and 2012 and for the six months ended 30 June 2012 and 2013, the amount of concession fees we paid to department stores was RMB1.4 million, RMB8.3 million, RMB21.4 million, RMB9.6 million and RMB20.2 million, respectively. In addition, we also incurred certain promotion expenses directly in relation to our promotion and marketing activities with respect to department store concession counters,

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and other related fees and expenses charged by department stores. The increase in our store concession fees during the Track Record Period was generally in line with the increase in our revenue from retail sales in department store concession counters.

As an incentive to attract new franchisees to expand sales network and to maintain a consistent high-quality store image, we provided subsidies to franchised retail points which satisfy our criteria covering costs of certain decoration and renovation items. Our criteria for granting such subsidies mainly include rental expenses, gross floor area, size of signboards and location of franchised retail points, as well as records of historical compliance with our store operational guidelines. Despite the increase in the number of franchised retail points, the subsidies for decoration and renovation cost decreased during the Track Record Period as certain late charge we received from franchisees in the amount of RMB0.7 million, RMB1.3 million, RMB1.8 million, RMB1.2 million and RMB1.9 million was offset for the year ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2012 and 2013, respectively. We impose a late charge of 3.65% per annum for all amounts receivable from our franchisees who settle their balances with us after the time stipulated in the relevant franchise agreements. The negative balance of subsidies for decoration and renovation for the six months ended 30 June 2013 was due to the decrease in subsidies for decoration and renovation as we only opened 23 new franchised retail points during the same period and the increase in the late charge we received from franchisees.

Administrative Expenses

The following table sets forth a breakdown of our administrative 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
				(unaudited)	
Salaries and staff benefits	13,360	18,549	22,133	10,066	12,583
Research and development costs	1,775	3,248	6,764	2,720	1,777
Rental expenses	1,105	2,380	2,504	1,079	1,146
Bank charges	656	933	1,889	986	828
Traveling expenses	925	2,113	1,757	726	388
Staff training costs	1,679	2,429	1,631	1,492	69
Office consumables	1,927	1,011	1,585	861	409
Depreciation charge	1,303	1,501	1,560	1,166	2,961
Listing expenses in relation to the Global Offering	—	—	—	—	4,087
Others	4,589	6,374	7,584	775	4,181
Total	27,319	38,538	47,407	19,871	28,429

Administrative expenses consist primarily of (i) salaries and benefits for our administrative staff; (ii) research and development costs for our product research and development, as well as our product design (including research and development staff cost); (iii) rental expenses for our offices; and (iv) other administrative expenses.

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For the year ended 31 December 2010, 2011 and 2012 and for the six months ended 30 June 2012 and 2013, our administrative expenses were approximately 8.5%, 8.2%, 8.3%, 7.2% and 9.0% of our total revenue, respectively. Our administrative expenses increased from the year ended 31 December 2010 to the year ended 31 December 2012 mainly due to (i) the increase in salaries and benefits for our administrative staff as we expanded our business and increased the head-count of our administrative staff; and (ii) the increase in research and development costs for our product research and development, as well as product design.

Our administrative expenses increased by approximately 43.1% to approximately RMB28.4 million for the six months ended 30 June 2013 from approximately RMB19.9 million for the six months ended 30 June 2012, primarily due to (i) the increase in salaries and benefits for our administrative staff as we expanded our business and increased the head-count of our administrative staff, and (ii) the listing expenses of RMB4.1 million recognised in relation to the Global Offering; partially offset by (i) decreases in staff training cost and office consumables as we saved rental expenses of external facilities used for staff training purposes and office consumables after we relocated our headquarters to the new head office buildings in Quanzhou, Fujian province in 2013, (ii) a decrease in travelling expenses for administrative staff as sales staff started to assume some administrative tasks, including travelling, according to our internal management, and (iii) a decrease in research and development costs in the first half of 2013 as we planned to conduct more research and development activities in the second half of 2013.

Finance Costs, net

Net finance costs mainly represent interest expenses on our banking borrowings, net of interest income.

Income Tax Expense

Our income tax expenses consist primarily of current tax and deferred tax. Current tax primarily comprises the PRC corporate income tax assessed on our PRC operating subsidiaries.

Our effective tax rate (income tax expense divided by profit before tax) for the year ended 31 December 2010, 2011 and 2012 and for the six months ended 30 June 2012 and 2013 was approximately 26.4%, 26.5%, 24.9%, 25.1% and 24.8% respectively. There is no material fluctuation in our effective tax rates, which are in line with the tax rate of 25% applicable to our PRC operating subsidiaries.

PERIOD TO PERIOD COMPARISON

Six months Ended 30 June 2013 Compared to Six Months Ended 30 June 2012

Revenue

Our revenue increased by RMB39.9 million, or 14.4%, from RMB276.2 million for the six months ended 30 June 2012 to RMB316.1 million for the six months ended 30 June 2013, primarily due to (i) the increase in revenue from wholesales to our franchisees as a result of an increase in the average wholesale selling price of our apparel products from RMB139 for the six months ended 30 June 2012 to RMB146 for the six months ended 30 June 2013; and (ii) the increase in revenue from retail sales in our

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our self-operated retail points. Our revenue from retail sales in our self-operated retail points increased during such period primarily due to (i) the increase in the average retail selling price of our apparel products from RMB246 for the six months ended 30 June 2012 to RMB285 for the six months ended 30 June 2013 as our customers gradually accepted our increased product prices as a result of our increased brand recognition and more matured product offering, and (ii) expansion of our retail network of department store concession counters from 118 as at 30 June 2012 to 155 as at 30 June 2013; partially offset by the decrease in revenue from retail sales in our stand-alone stores as we consolidated our sales network of stand-alone stores.

Cost of Sales

Our cost of sales increased by approximately 11.5% to approximately RMB169.8 million for six months ended 30 June 2013 from approximately RMB152.3 million for six months ended 30 June 2012, primarily due to the increase in the cost of outsourced design and production as a result of the growth of our sales from the respective product categories.

Gross Profit and Gross Profit Margin

Our gross profit increased by approximately 18.1% to approximately RMB146.3 million for the six months ended 30 June 2013 from approximately RMB123.9 million for six months ended 30 June 2012 primarily due to the increase in our revenue and to a lesser extent, due to the increase in our gross profit margin.

Our overall gross profit margin slightly increased to approximately 46.3% for six months ended 30 June 2013 from approximately 44.9% for the six months ended 30 June 2012, mainly attributable to the increase in gross profit margin of the retail sales in our self-operated retail points arising from an increase in the average retail selling price of our apparel products as a result of our increased brand recognition and more matured product offering.

Other Income

Our other income increased by approximately 112.9% to approximately RMB6.8 million for the six months ended 30 June 2013 from approximately RMB3.2 million for the six months ended 30 June 2012, primarily due to the increase in government grants and subsidies from RMB1.2 million for the six months ended 30 June 2012 to approximately RMB4.0 million for the six months ended 30 June 2013, which was at the discretion of local governments.

Selling and Distribution Costs

Our selling and distribution costs increased by approximately 17.1% to approximately RMB58.3 million for the six months ended 30 June 2013 from approximately RMB49.8 million for six months ended 30 June 2012, primarily due to (i) the increase in store concession fee primarily as a result of the expansion of our retail network of department store concession counters from 118 as at 30 June 2012 to 155 as at 30 June 2013; and (ii) the increase in salaries and benefits for our sales and marketing staff as we increased the head-count of our sales and marketing staff.

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Administrative Expense

Our administrative expenses increased by approximately 43.1% to approximately RMB28.4 million for the six months ended 30 June 2013 from approximately RMB19.9 million for the six months ended 30 June 2012, primarily due to (i) the increase in salaries and benefits for our administrative staff as we expanded our business and increased the head-count of our administrative staff, and (ii) the listing expenses of RMB4.1 million recognised in relation to the Global Offering; partially offset by (i) decreases in staff training cost and office consumables as we saved rental expenses of external facilities used for staff training purposes and office consumables after we relocated our headquarters to the new head office buildings in Quanzhou, Fujian province in 2013, (ii) a decrease in travelling expenses for administrative staff as sales staff started to assume some administrative tasks, including travelling, according to our internal management, and (iii) a decrease in research and development costs in the first half of 2013 as we planned to conduct more research and development activities in the second half of 2013.

Finance Costs, net

Our net finance costs increased by approximately 11.6% to approximately RMB4.2 million for the six months ended 30 June 2013 from approximately RMB3.8 million for the six months ended 30 June 2012, primarily due to the increase in our average bank borrowings.

Income Tax Expense

Our income tax expense increased by approximately 14.5% to approximately RMB15.4 million for the six months ended 30 June 2013 from approximately RMB13.5 million for the six months ended 30 June 2012, mainly due to our increased profit from operations. Our effective tax rate remained relatively stable at 24.8% for the six months ended 30 June 2013 as compared to 25.1% for the six months ended 30 June 2012.

Profit for the Year and Net Profit Margin

As a result of the foregoing factors, our profit increased by approximately 16.2% to approximately RMB46.7 million for the six months ended 30 June 2013 from approximately RMB40.2 million for the six months ended 30 June 2012. Our profit margin remained stable at 14.8% for the six months ended 30 June 2013 as compared to 14.5% for the six months ended 30 June 2012.

Year Ended 31 December 2012 Compared to Year Ended 31 December 2011

Revenue

Our revenue increased by RMB104.4 million, or 22.3%, from RMB467.8 million for the year ended 31 December 2011 to RMB572.1 million for the year ended 31 December 2012, primarily due to (i) the increase in revenue from wholesales to our franchisees as a result of the increase in the average selling price of our apparel products from RMB135.0 for the year ended 31 December 2011 to RMB150.0 for the year ended 31 December 2012 and an increase in sales volume of products from 1.8 million units to 1.9 million units during the same period, and (ii) the increase in revenue from retail sales in our self-operated retail points. Our revenue from retail sales in our self-operated retail points increased during such period primarily due to (i) the increase in the average retail selling price of our

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apparel products from RMB212.0 for the year ended 31 December 2011 to RMB233.0 for the year ended 31 December 2012 as our customers gradually accepted our increased product prices as a result of our increased brand recognition and more matured product offering; and (ii) the increase in sale volume of products in self-operated retail points from 689,000 units to 784,000 units during the same period, primarily as a result of the expansion of our retail network of department store concession counters from 100 as at 31 December 2011 to 142 as at 31 December 2012.

Cost of Sales

Our cost of sales increased by approximately 18.8% to approximately RMB313.2 million for the year ended 31 December 2012 from approximately RMB263.6 million for the year ended 31 December 2011, primarily due to the increase in the cost of outsourced design and production as a result of the growth of our sales from the respective product categories.

Gross Profit and Gross Profit Margin

Our gross profit increased by approximately 26.8% to approximately RMB258.9 million for the year ended 31 December 2012 from approximately RMB204.2 million for the year ended 31 December 2011 primarily due to the increase in our revenue, and partially due to the increase in our gross profit margin.

Our overall gross profit margin slightly increased to approximately 45.3% for the year ended 31 December 2012 from approximately 43.6% for the year ended 31 December 2011 and was mainly attributable to the increase in gross profit margin of the retail sales in our self-operated retail points arising from the increase in the average retail selling price of our apparel products as a result of our increased brand recognition and more matured product offering.

Other Income

Our other income decreased by approximately 16.0% to approximately RMB8.3 million for the year ended 31 December 2012 from approximately RMB9.8 million for the year ended 31 December 2011, primarily due to the decrease in government grants and subsidies from RMB4.9 million for the year ended 31 December 2011 to approximately RMB2.8 million for the year ended 31 December 2012, which was at the discretion of local governments.

Selling and Distribution Costs

Our selling and distribution costs increased by approximately 39.9% to approximately RMB103.9 million for the year ended 31 December 2012 from approximately RMB74.3 million for the year ended 31 December 2011, primarily due to (i) the increase in salaries and benefits for our sales and marketing staff as we increased the head-count of our sales and marketing staff; (ii) the increase in store concession fee; (iii) the increase in advertising and promotion expenses, decoration and renovation costs, rental expenses, as well as expenses for packaging materials and consumables incurred in our self-operated retail points, in line with the expansion of our sales network as well as our business growth. Our self-operated stores increased from 155 as at the end of 2011 to 198 as at the end of 2012.

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Administrative Expense

Our administrative expenses increased by approximately 23.0% to approximately RMB47.4 million for the year ended 31 December 2012 from approximately RMB38.5 million for the year ended 31 December 2011, primarily due to (i) the increase in salaries and benefits for our administrative staff as we expanded our business and increased the head-count of our administrative staff; and (ii) the increase in research and development expenses for our product research and development, as well as product design.

Finance Costs, net

Our net finance costs decreased by approximately 15.1% to approximately RMB7.0 million for the year ended 31 December 2012 from approximately RMB8.2 million for the year ended 31 December 2011, primarily due to the increase in bank interest income by approximately 272.0% to approximately RMB6.0 million for the year ended 31 December 2012 from approximately RMB1.6 million for the year ended 31 December 2011 as a result of our increased bank balance after the capital contribution by our equity holders, which was partially offset by the increase in interest expenses on our banking borrowings by approximately 32.0% to approximately RMB13.0 million for the year ended 31 December 2012 from approximately RMB9.8 million for the year ended 31 December 2011 as a result of our increased average bank borrowings to support our business expansion.

Income Tax Expense

Our income tax expense increased by approximately 10.4% to approximately RMB27.1 million for the year ended 31 December 2012 from approximately RMB24.6 million for the year ended 31 December 2011, mainly due to our increased profit from operations. Our effective tax rate slightly decreased to 24.9% for the year ended 31 December 2012 from 26.5% for the year ended 31 December 2011 primarily because the provision for social insurance and housing fund contributions, which we made subsequently after we had filed our tax return in the PRC for the year ended 31 December 2011, was not deductible for income tax purpose for the year ended 31 December 2011.

Profit for the Year and Net Profit Margin

As a result of the foregoing factors, our profit for the year increased by approximately 19.5% to approximately RMB81.7 million for the year ended 31 December 2012 from approximately RMB68.4 million for the year ended 31 December 2011. Our profit margin remained stable at 14.3% for the year ended 31 December 2012 as compared to 14.6% for the year ended 31 December 2011.

Year Ended 31 December 2011 Compared to Year Ended 31 December 2010

Revenue

Our revenue increased by RMB145.6 million, or 45.2%, from RMB322.2 million for the year ended 31 December 2010 to RMB467.8 million for the year ended 31 December 2011, primarily due to (i) the increase in revenue from wholesales to our franchisees as a result of our expanded sales network of franchised retail points from 141 as at 31 December 2010 to 211 as at 31 December 2011 and an increase in the average wholesale selling price of our apparel products from RMB107.0 for the year ended 31 December 2010 to RMB135.0 for the year ended 31 December 2011 resulting from an increase

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of our average retail selling price, and (ii) to a lesser extent, the increase in revenue from retail sales in our self-operated retail points. Our revenue from retail sales in our self-operated retail points increased primarily due to the increase in the average retail selling price of our apparel products from RMB152.0 for the year ended 31 December 2010 to RMB212.0 for the year ended 31 December 2011, which was partially offset by an decrease in sales volume of products from 763,000 units for the year ended 31 December 2010 to 684,000 units for the year ended 31 December 2011.

Cost of Sales

Our cost of sales increased by approximately 35.3% to approximately RMB263.6 million for the year ended 31 December 2011 from approximately RMB194.8 million for the year ended 31 December 2010, primarily due to the increase in cost of outsourced design and production, which was in line with the growth of our sales from the respective product categories.

Gross Profit and Gross Profit Margin

Our gross profit increased by approximately 60.3% to approximately RMB204.2 million for the year ended 31 December 2011 from approximately RMB127.3 million for the year ended 31 December 2010 primarily due to the increase in our revenue and the increase in our gross profit margin.

Our overall gross profit margin increased to approximately 43.6% for the year ended 31 December 2011 from 39.5% for the year ended 31 December 2010 mainly attributable to the increase in the average selling price of our apparel products as a result of our increased brand recognition and the increasing market demand for our matured product offering.

Other Income

Our other income increased by approximately 174.8% to approximately RMB9.8 million for the year ended 31 December 2011 from approximately RMB3.6 million for the year ended 31 December 2010, primarily due to the increase in government grants and subsidies from RMB0.2 million for the year ended 31 December 2010 to approximately RMB4.9 million for the year ended 31 December 2011, which was at the discretion of local governments.

Selling and Distribution Costs

Our selling and distribution costs increased by approximately 97.1% to approximately RMB74.3 million for the year ended 31 December 2011 from approximately RMB37.7 million for the year ended 31 December 2010, primarily due to (i) the increase in salaries and benefits for our sales and marketing staff as we increased number of our self-operated department store concession counters from 30 as at the end of 2010 to 100 as at the end of 2011 and increased the head-count of our sales and marketing staff; (ii) the increase in store concession fees; and (iii) the increase in advertising and promotion expenses as we promoted our products and brand.

Administrative Expense

Our administrative expenses increased by approximately 41.1% to approximately RMB38.5 million for the year ended 31 December 2011 from approximately RMB27.3 million for the year ended 31 December 2010, primarily due to (i) the increase in salaries and benefits for administrative staff as we

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expanded our business and increased the head-count of our administrative staff; and (ii) the increase in research and development expenses for our product research and development, as well as product design.

Finance Costs, net

Our net finance costs increased by approximately 112.3% to approximately RMB8.2 million for the year ended 31 December 2011 from approximately RMB3.9 million for the year ended 31 December 2010 primarily due to (i) our increased average bank borrowings to support our business expansion, and (ii) the increase in the average interest rate of our bank borrowings.

Income Tax Expense

Our income tax expense increased by approximately 50.2% to approximately RMB24.6 million for the year ended 31 December 2011 from approximately RMB16.4 million for the year ended 31 December 2010, mainly due to our increased profit from operations. Our effective tax rate was 26.5% for the year ended 31 December 2011, comparable to 26.4% for the year ended 31 December 2010, and was in line with the tax rates applicable to our PRC operating subsidiaries.

Profit for the Year and Net Profit Margin

As a result of the foregoing factors, our profit for the year increased by approximately 49.7% to approximately RMB68.4 million for the year ended 31 December 2011 from approximately RMB45.7 million for the year ended 31 December 2010. Our net profit margin remained stable at 14.6% for the year ended 31 December 2011 as compared to 14.2% for the year ended 31 December 2010.

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NET CURRENT ASSETS

The following table below sets forth our current assets and current 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	61,044	80,315	111,182	100,946	119,811
Trade receivables	35,381	55,552	70,966	77,310	147,707
Prepayments, deposits and other receivables	51,430	75,775	90,960	79,681	53,894
Pledged deposits	2,664	578	500	—	400
Cash and cash equivalents . .	79,904	181,618	198,136	270,426	314,105
Total current assets	<u>230,423</u>	<u>393,838</u>	<u>471,744</u>	<u>528,363</u>	<u>635,917</u>
CURRENT LIABILITIES					
Trade and bills payables . . .	23,830	21,668	14,245	8,580	30,739
Other payables, accruals and other liabilities	25,119	32,593	37,263	38,679	43,697
Interest-bearing bank borrowings	30,285	60,386	154,824	181,415	229,570
Tax payable	7,801	13,837	11,871	19,343	22,027
Total current liabilities . . .	<u>87,035</u>	<u>128,484</u>	<u>218,203</u>	<u>248,017</u>	<u>326,033</u>
NET CURRENT ASSETS . .	<u>143,388</u>	<u>265,354</u>	<u>253,541</u>	<u>280,346</u>	<u>309,884</u>

Inventories

The following table sets forth a summary of our inventories 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
Consumables	1,166	2,848	5,266	6,179
Finished goods	59,878	77,467	105,916	94,767
Total	<u>61,044</u>	<u>80,315</u>	<u>111,182</u>	<u>100,946</u>

Our inventories consist of consumables and finished goods. Consumables represent auxiliary materials (such as logo labels) for our products. Finished goods consist primarily of finished products in our warehouses and self-operated retail points.

Our inventory of finished goods increased by approximately 29.4% from approximately RMB59.9 million as at 31 December 2010 to approximately RMB77.5 million as at 31 December 2011, and further by approximately 36.6% to approximately RMB105.9 million as at 31 December 2012, primarily due to the expected increase in demand for our products from our expanded sales network. Our

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inventory of finished goods decreased by RMB11.1 million, or approximately 10.5%, from approximately RMB105.9 million as at 31 December 2012 to approximately RMB94.8 million as at 30 June 2013, primarily because the unit cost of our products for spring-and-summer season are lower as compared to that of our products for winter-and-fall season.

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

	Year ended 31 December			Six months ended 30 June
	2010	2011	2012	2013
	Average inventory turnover days ¹	95.3	97.9	111.6

(1) Average inventory turnover days is equal to the average inventory divided by the cost of sales and multiplied by 365/183 days. Average inventory equals inventory at the beginning of the year/period plus inventory at the end of the year/period and divided by two.

Our average inventory turnover days increased slightly from 95.3 days for the year ended 31 December 2010 to 97.9 days for the year ended 31 December 2011, further to 111.6 days for the year ended 31 December 2012, and further to 114.3 days for the six months ended 30 June 2013, primarily because we increased the number of our self-operated retail points from 84 as at 31 December 2010 to 210 as at 30 June 2013, and these retail points required us to maintain certain levels of inventory to meet customers' demand. In particular, we opened more department store concession counters in Southwestern and Northern China during the Track Record Period. The inventory turnover rate was relatively low in respect of these department store concession counters, as it generally took some time for consumers in the new markets to recognise our product brand and some department stores required us to maintain certain minimum levels of inventory.

We conduct semiannually physical stock counts and formulate our inventory control policy, taking into account a number of factors, including, among others, (i) ages, quantities and marketability of inventories; (ii) retail prices of finished goods; (iii) discounted retail sales under different circumstances; and (iv) relevant cost of sales as well as selling and distribution costs. We apply different promotion rates ranging from 40% to 90% to our retail prices with reference to ages of the inventory and subtract any expected expenses and costs to arrive the net realisable value ("NRV") of the products. We then compare the NRV against our inventory at cost and make inventory provision accordingly.

As at Latest Practicable Date, approximately RMB74.3 million, or 73.6%, of our inventories as at 30 June 2013 has been utilised or sold.

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Trade Receivables

Our trade receivables primarily consist of (i) receivables from department stores relating to concession sales, and (ii) receivables from franchisees. Trade receivable balance from self-operated stand-alone stores represented the balance receivable from credit card sales. The following table sets forth a summary of the trade 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
Self-operated retail points				
<i>Stand-alone stores</i>	326	664	199	151
<i>Department store concession counters</i> . .	228	4,222	5,480	5,821
<i>Stores under cooperative arrangement</i> . .	—	—	—	119
Franchised retail points	34,827	50,666	65,287	71,155
Others	—	—	—	64
Total	<u>35,381</u>	<u>55,552</u>	<u>70,966</u>	<u>77,310</u>

Our trade receivables increased by approximately 57.0% from approximately RMB35.4 million as at 31 December 2010 to approximately RMB55.6 million as at 31 December 2011, further by approximately 27.7% to approximately RMB71.0 million as at 31 December 2012, and further by approximately 8.9% to RMB77.3 million as at 30 June 2013, as we expanded our sales network and increased the number of self-operated department store concession counters as well as the number of franchised retail points during the Track Record Period.

The following table sets forth the overall average trade receivable turnover days and our average trade receivable turnover days for department store concession counters and franchised retail points for the periods indicated:

	Year ended 31 December			Six months ended 30 June
	2010	2011	2012	2013
	Average trade receivable turnover days ¹			
(overall)	34.6	35.5	40.4	42.9
<i>Department store concession counters</i> . .	19.8	49.4	35.9	22.3
<i>Franchised retail points</i>	56.1	55.3	62.5	71.5

(1) Average trade receivable turnover days is equal to the average trade receivable divided by the revenue and multiplied by 365/183 days. Average trade receivable equals trade receivable at the beginning of the year/period plus trade receivable at the end of the year/period and divided by two.

Although it is stipulated in the franchise agreement that our franchisees are generally required to settle the outstanding purchase balance and membership fees of the previous month before the 25th day of each month, we generally grant a credit period of one month to our customers, extending up to three months for our franchisees. In determining the credit period for a franchisee, we conducted individualised analysis taking into account of several factors, including, among others, sales growth rate and business potential, as well as past orders with us. Each franchisee has a maximum credit limit and

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we supply our products to the franchisees as long as their outstanding balances fall within their credit limit, although a late charge would be imposed at a rate of 3.65% per annum on those franchisees who settle their outstanding balances with us after the stipulated timelines.

Our overall average trade receivable turnover days increased slightly from 34.6 days for the year ended 31 December 2010 to 35.5 days for the year ended 31 December 2011, further to 40.4 days for the year ended 31 December 2012, and further to 42.9 days for the six months ended 30 June 2013 primarily due to the increase in trade receivable turnover days for our franchised retail points. Our trade receivable turnover days for our franchised retail points increased during the Track Record Period primarily due to a longer settlement period of our franchisees to support their operations and expansion. The trade receivable turnover days were within our credit period granted to the franchisees.

In addition, our trade receivable turnover days for our department store concession counters decreased during the Track Record Period, primarily due to our efforts to shorten the settlement period with certain department stores and the fact that certain department stores were willing to speed up settlement with us after we had established good business relationship with them over the years.

The following table sets forth an aging analysis (based on dates of invoices) of our trade 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 1 month	30,926	43,111	46,264	36,813
1 to 2 months	4,318	10,807	22,713	26,628
2 to 3 months	10	1,187	1,858	12,529
Over 3 months	<u>127</u>	<u>447</u>	<u>131</u>	<u>1,340</u>
	<u>35,381</u>	<u>55,552</u>	<u>70,966</u>	<u>77,310</u>

Our senior management conducts regularly reviews of overdue balances and are of the view that there is no significant concentration of credit risk as our trade receivables are related to a large number of diversified customers. For the year ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013, our provision for impairment of trade receivables was RMB1.9 million, RMB3.1 million, RMB3.8 million and RMB4.6 million, respectively.

As at Latest Practicable Date, approximately RMB81.6 million, or 99.7%, of our trade receivables as at 30 June 2013 had been settled.

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Prepayments, Deposits and Other Receivables

The following table sets forth a summary of the prepayments, deposits and other 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
Prepayments to suppliers	45,509	61,740	73,693	62,478
Rental prepayments	2,549	4,323	4,235	3,460
Prepaid decoration costs	1,176	2,705	3,626	2,829
VAT recoverable	—	—	3,353	—
Rental deposits	270	441	876	2,360
Others	1,926	6,566	5,177	8,554
Total	51,430	75,775	90,960	79,681

Our prepayments, deposits and other receivables primarily consist of (i) prepayments we made to OEMs and ODMs in relation to our outsourced design and production as we generally prepay our OEMs and ODMs at certain percentages of the purchase prices; (ii) rental prepayments and deposits for our self-operated retail points and regional offices; (iii) prepayments for decoration costs of our department store concession counters; (iv) VAT recoverable; and (v) others including prepaid advertising expenses and prepaid land lease payments. VAT recoverable was due to input VAT, from certain purchases before the end of 2012, being in excess of output VAT for that month.

Our prepayments to OEMs and ODMs increased by approximately 35.7% from RMB45.5 million as at 31 December 2010 to RMB61.7 million as at 31 December 2011, and further by approximately 19.4% to RMB73.7 million as at 31 December 2012, primarily due to the increase in our outsourced design and production as a result of our expanded operation. Our prepayments to OEMs and ODMs decreased by approximately 28.8% from RMB73.7 million as at 31 December 2012 to RMB62.5 million as at 30 June 2013 as a result of the lower unit cost of our products for spring-and-summer season.

Trade and Bills Payables

Our trade and bills payables consist primarily of payables to OEMs and ODMs. The following table sets forth a summary of the 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
Trade payables	2,169	15,885	9,245	8,580
Bills payable	21,661	5,783	5,000	—
Total	23,830	21,668	14,245	8,580

Since we generally prepay our OEMs and ODMs at certain percentages of the purchase prices before production, our trade and bill payables balance were generally low. Our trade and bills payables decreased by approximately 8.8% from approximately RMB23.8 million as at 31 December 2010 to

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approximately RMB21.7 million as at 31 December 2011, further by approximately 34.3% to approximately RMB14.2 million as at 31 December 2012, and further by approximately 39.4% to RMB8.6 million as at 30 June 2013, primarily because as requested by OEMs and ODMs, we decreased the use of bills payable, which had longer settlement periods, to settle our purchases with them to support their operation. In addition, we increased prepayments to OEMs and ODMs before the end of relevant periods during the Track Record Period. In particular, we made prepayments of full purchase amounts to some OEMs and ODMs to maintain a close relationship with them and to ensure a stable and adequate supply of finished products to support our procurement model. In particular, as our business model has become more mature and after we have expanded our sales network, we require a shorter procurement and production lead time and require a wider range of products to be supplied from our suppliers. The settlement period of bills payable during the Track Record Period was generally 180 days.

The following table sets forth an aging analysis of the trade payables of our Group 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 1 month	1,820	14,700	6,122	6,524
1 to 3 months	—	1,018	2,042	1,212
3 to 6 months	—	167	1,033	406
Over 6 months	349	—	48	438
	<u>2,169</u>	<u>15,885</u>	<u>9,245</u>	<u>8,580</u>

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

	Year ended 31 December			Six months ended 30 June
	2010	2011	2012	2013
	Average trade and bills payables turnover days ⁽¹⁾	53.3	31.5	20.9

(1) Average trade and bills payables turnover days is equal to the average trade and bills payables divided by the cost of sales and multiplied by 365/183 days. Average trade and bills payables equals trade and bills payables at the beginning of the year/period plus trade and bills payables at the end of the year/period and divided by two.

We generally grant a credit period of 30 days from our suppliers. Our average turnover days of trade and bills payables decreased from 53.3 days for the year ended 31 December 2010 to 31.5 days for the year ended 31 December 2011, further to 20.9 days for the year ended 31 December 2012, and further to 12.3 days for the six months ended 30 June 2013, primarily because we decreased the use of bills payables, which usually had a longer settlement period, to settle our purchases with OEMs and ODMs. Our finance department generally prepares a monthly cashflow forecast for the coming month in order to manage and arrange the cash inflows from our product sales and the cash outflows for our purchases with OEMs and ODMs.

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Our bills payables were secured by our time deposits in the amount of RMB2.7 million, RMB578,000, RMB500,000 and nil as at 31 December 2010, 2011 and 2012 and 30 June 2013, respectively, and secured by the land use rights in respect of the property in Quanzhou, Fujian province with the carrying amount of RMB11.5 million as at 31 December 2011. In addition, our related parties (including the Controlling Shareholders and their family member) guaranteed the bills payables as at 31 December 2010, 2011 and 2012. These guarantees provided by our related parties will be released upon completion of the Global Offering.

As at the Latest Practicable Date, approximately RMB8.6 million, or 99.9%, of our trade payables as at 30 June 2013 have been settled.

Other Payables, Accruals and Other Liabilities

The following table sets forth a summary of the other payables, accruals and other liabilities as at the dates indicated:

	As at 31 December			As at
	2010	2011	2012	30 June
	RMB'000	RMB'000	RMB'000	RMB'000
VAT payables	3,863	8,637	5,223	3,072
Deposits and advance from customers . . .	2,386	4,032	3,225	3,473
Accrued staff costs and benefits	14,009	16,988	19,704	20,842
Accrued advertising fee	221	341	1,021	3,011
Other payables for purchase of property, plant and equipment	2,865	128	2,719	1,509
Other payables and accruals	1,775	2,467	5,371	6,772
Total	25,119	32,593	37,263	38,679

Our other payables, accruals and other liabilities consist primarily of (i) VAT payables; (ii) deposits and advance from customers; (iii) accrued staff costs and benefit; (iv) accrued advertising fee; (v) other payables for purchase of property, plant and equipment; and (vi) other payables for decoration costs and dividends payables.

Our other payables, accruals and other liabilities increased by approximately 29.8% from RMB25.1 million as at 31 December 2010 to RMB32.6 million as at 31 December 2011, further by approximately 14.3% to RMB37.3 million as at 31 December 2012, and further by approximately 3.8% to RMB38.7 million as at 30 June 2013, primarily due to the increase in accrued staff costs and benefits as we expanded our business and increased the headcount of our staff.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

We finance our operations primarily with cash flows from operations, bank borrowings and capital contribution from shareholders. Our primary uses of funds have been capital expenditures, working capital and repayment of bank borrowings.

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The following table sets forth our cash flows for the periods indicated:

	<u>Year ended 31 December</u>			<u>Six months ended 30 June</u>	
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2012</u>	<u>2013</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
				(unaudited)	
Net cash flows generated					
from operating activities . .	29,462	30,454	35,825	40,624	55,768
Net cash flows used in					
investing activities	(23,929)	(30,007)	(78,875)	(59,646)	(1,871)
Net cash flows generated					
from financing activities . .	<u>3,724</u>	<u>101,267</u>	<u>59,568</u>	<u>11,918</u>	<u>18,393</u>
Net increase (decrease) in					
cash and cash equivalents .	9,257	101,714	16,518	(7,104)	72,290
Cash and cash equivalents at					
beginning of year/period . .	<u>70,647</u>	<u>79,904</u>	<u>181,618</u>	<u>181,618</u>	<u>198,136</u>
Cash and cash equivalents at					
end of the year/period . . .	<u><u>79,904</u></u>	<u><u>181,618</u></u>	<u><u>198,136</u></u>	<u><u>174,514</u></u>	<u><u>270,426</u></u>

Net Cash Generated from Operating Activities

For the six months ended 30 June 2013, we had net cash inflow from operating activities before working capital changes of RMB76.1 million and a net cash inflow from operating activities of RMB55.8 million. The difference of RMB20.3 million mainly reflected the increase in prepayments, deposits and other receivables of RMB13.0 million resulting from the increase in our deposits for the purchase of property, plant and equipment, the income tax paid of RMB8.7 million, the increase in trade receivables of RMB7.1 million as we expanded our sales network and increased the number of self-operated department store concession counters and franchised retail points, and the decrease in trade and bills payables of RMB5.7 million as we decreased the use of bills payable to our OEMs and ODMs to support their operation; partially offset by the decrease in inventories of RMB8.8 million due to the lower unit cost of our products for spring-and-summer season and the interest received of RMB4.0 million.

For the six months ended 30 June 2012, we had net cash inflow from operating activities before working capital changes of RMB62.0 million and a net cash inflow from operating activities of RMB40.6 million. The difference of RMB21.4 million mainly reflected the income tax paid of RMB16.8 million, the increase in inventories of RMB14.9 million as we coped with the expected increased demand for our products due to our expanded sales network, the decrease in trade and bills payables of RMB6.5 million as we decreased the use of bills payable to our OEMs and ODMs; partially offset by the decrease in trade receivables of RMB17.8 million and the interest received of RMB2.0 million.

For the year ended 31 December 2012, we generated net cash inflow from operating activities before working capital changes of RMB128.1 million and a net cash inflow from operating activities of RMB35.8 million. The difference of RMB92.3 million mainly reflected the increase in inventories of RMB33.2 million as we coped with the expected increased demand for our products as a result of our expanded sales network, the payment of income tax of RMB31.2 million, the increase in trade receivables of RMB16.1 million mainly due to our increased number of department store concession

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counters and franchised retail points, the increase in prepayments, deposits and other receivables of RMB14.4 million to our OEMs and ODMs for our expanded operations and the decrease in trade and bills payables of RMB7.4 million as we decreased the use of bills payable to our OEMs and ODMs to support their operation; partially offset by the interest received of RMB6.0 million.

For the year ended 31 December 2011, we generated net cash inflow from operating activities before working capital changes of RMB111.8 million and a net cash inflow from operating activities of RMB30.5 million. The difference of RMB81.3 million mainly reflected the increase in prepayments, deposits and other receivables of RMB26.0 million to our OEMs and ODMs as a result of our expanded operation, the increase in trade receivables of RMB21.4 million mainly due to our increased number of franchised retail points, the increase in inventories of RMB20.7 million to meet the increasing demand for our products from our expanded sales network and the payment of income tax of RMB20.2 million; partially offset by the increase in other payables, accruals and other liabilities of RMB7.5 million.

For the year ended 31 December 2010, we generated net cash inflow from operating activities before working capital changes of RMB73.6 million and a net cash inflow from operating activities of RMB29.5 million. The difference of RMB44.1 million mainly reflected the increase in inventories of RMB20.3 million to meet the increasing demand for our products as a result of our expanded sales network, the payment of income tax of RMB15.5 million, the increase in trade receivables of RMB10.3 million mainly due to our expanded network of franchised retail points, the decrease in trade and bills payables of RMB9.2 million; partially offset by the increase in other payables, accruals and other liabilities of RMB10.0 million.

Net Cash Used in Investing Activities

The principal items affecting net cash used in investing activities during the Track Record Period were our capital expenditures for purchases of property, plant and equipment, the payment to acquire land use right, and the construction of our head office.

Net cash used in investing activities was RMB1.9 million for the six months ended 30 June 2013. The amount mainly represented the purchase of property, plant and equipment for our head office buildings in Quanzhou, Fujian province.

Net cash used in investing activities was RMB59.6 million for the six months ended 30 June 2012. The amount mainly represented (i) the purchase cost of a land parcel for our product centre in Shanghai for product design and development, procurement and production quality control, and (ii) the purchases of property, plant and equipment, as well as the additional construction and improvement in respect of our head office buildings in Quanzhou, Fujian province.

Net cash used in investing activities was RMB78.9 million for the year ended 31 December 2012. The amount represented (i) the purchase cost of a land parcel for our product centre in Shanghai for product design and development, procurement, and production quality control, and (ii) the purchases of property, plant and equipment, as well as the additional construction and improvement, in respect of our head office buildings in Quanzhou, Fujian province.

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Net cash used in investing activities was RMB30.0 million for the year ended 31 December 2011. The amount mainly represented the purchases of property, plant and equipment and the additional construction and improvement in respect of our head office buildings in Quanzhou, Fujian province; and partially offset by a decrease in pledged deposits of RMB2.1 million as we decreased the use of bills payable to settle our purchases with OEMs and ODMs.

Net cash used in investing activities was RMB23.9 million for the year ended 31 December 2010. The amount mainly represented the purchase cost of the land parcel of RMB11.4 million; and the purchases of property, plant and equipment and additional construction and improvement of RMB30.1 million in respect of our head office buildings in Quanzhou, Fujian province; and partially offset by a decrease in pledged deposits of RMB17.5 million as we decreased the use of bills payable to settle our purchases with OEMs and ODMs.

Net Cash Used in Financing Activities

Our financing activities during the Track Record Period mainly included capital injections from shareholders and proceeds from and repayments of bank borrowings.

Net cash generated from financing activities was RMB18.4 million for the six months ended 30 June 2013. The amount mainly represented new bank borrowings of RMB124.8 million for our expanded business, partially offset by the repayment of bank borrowings of RMB98.2 million and the interest payment of RMB8.2 million.

Net cash generated from financing activities was RMB11.9 million for the six months ended 30 June 2012. The amount mainly represented new bank borrowings of RMB174.8 million for our expanded business, partially offset by the repayment of bank borrowings of RMB147.2 million, the interest payment of RMB5.8 million and the payment of dividends of RMB9.9 million.

Net cash generated from financing activities was RMB59.6 million for the year ended 31 December 2012. The amount mainly represented new bank borrowings of RMB361.8 million for our expanded business, and partially offset by the repayment of bank borrowings of RMB279.4 million, the interest payment of RMB13.0 million and the payment of dividends of RMB9.9 million.

Net cash generated from financing activities was RMB101.3 million for the year ended 31 December 2011. The amount mainly represented new bank borrowings of RMB178.6 million and the capital injection from new shareholders of RMB96 million to fund the capital need of our expanded business, and partially offset by the repayment of bank borrowings of RMB163.5 million and the interest payment of RMB9.8 million.

Net cash generated from financing activities was RMB3.7 million for the year ended 31 December 2010. The amount mainly represented new bank borrowings of RMB124.6 million for our expanded business, and partially offset by the repayment of bank borrowings of RMB116.4 million and the interest payment of RMB4.5 million.

FINANCIAL INFORMATION

CAPITAL EXPENDITURE AND COMMITMENTS

Capital Expenditure

Our capital expenditures during the Track Record Period comprised expenditures on (i) purchase of property, plant and equipment and the construction of our head office buildings in Quanzhou, Fujian province; and (ii) the cost of land for our head office buildings in Quanzhou, Fujian province and our product centre located at Shanghai.

The following table sets forth our capital expenditures for the period indicated:

	Year ended 31 December			Six months ended 30 June
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Purchase of property, plant and equipment	30,074	31,673	41,383	2,614
Additions to prepaid land lease payments .	11,352	420	37,570	—
Total	41,426	32,093	78,953	2,614

During the Track Record Period, we constructed, purchased equipment and made additional improvement for our head office buildings in Quanzhou, Fujian province for our expanded operation.

The prepaid land lease payments in the amount of RMB11.4 million for the year ended 31 December 2010 was related to our purchase price of the land use rights in respect of our head office buildings in Quanzhou, Fujian province. The prepaid land lease payments in the amount of RMB37.6 million for the year ended 31 December 2012 was related to our purchase price of the land use rights in respect of our product centre in Shanghai.

The planned capital expenditure for the Phase I construction of our product centre in Shanghai is approximately RMB44.0 million, RMB110.0 million and RMB66.0 million for the year ending 31 December 2013, 2014 and 2015, respectively, primarily in relation to land preparation works, construction of our product centre, and building decoration and renovation. We plan to fund the construction of research and development part of the product centre by using RMB50 million of the net proceeds from the Global Offering and fund the construction of remaining parts by using the funds generated from our operation and bank borrowings. Construction of the product centre has commenced and is expected to be completed by June 2015.

We expect to incur depreciation charge after the completion of our product Center. The building is expected to depreciate over a period of 20 years and the property, plant and equipment are expected to depreciate over five to 10 years. Although the estimated additional depreciation charge would be higher than the current rental expenses of our Shanghai Office, our Directors are of the view that the product centre has long-term strategic value to our Group given Shanghai is the centre for fashion and design. Moreover, with our centralised staff and functions, we will be better able to utilise our resources and make better production planning. We also intend to increase the headcount to support our expanded operation scale after completion of the product centre.

FINANCIAL INFORMATION

Capital Commitments

The following table sets forth our capital commitments 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
Contracted, but not provided for:				
— Land and buildings	18,062	8,403	—	223,370
— Plant and machinery	873	4,781	10	497
Authorised, but not contracted for:				
— Land and buildings	23,443	8,010	320,000	71,850
	<u>42,378</u>	<u>21,194</u>	<u>320,010</u>	<u>295,717</u>

Our capital commitments of RMB42.4 million as at 31 December 2010 and RMB21.2 million as at 31 December 2011 were primarily related to the construction of our new head office building in Quanzhou, Fujian province. Our capital commitment of RMB320.0 million as at 31 December 2012 and RMB295.7 million as at 30 June 2013 were primarily related to the costs of construction of our product centre in Shanghai for product design and development, procurement, and production quality control.

INDEBTEDNESS

Bank Borrowings

As at 31 October 2013, the Latest Practicable Indebtedness Date as the latest practicable date for the purpose of determining our indebtedness, we had the total bank borrowings of RMB229.6 million, which were unsecured and secured short-term bank borrowings. The following table sets forth our bank borrowings 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
Unsecured bank borrowings					
repayable within one year	30,285	60,386	59,000	33,100	80,000
Unsecured bank borrowings					
repayable more than one					
year	27,000	12,000	—	—	—
Secured bank borrowings					
repayable within one year	—	—	95,824	148,315	149,570
Total	<u>57,285</u>	<u>72,386</u>	<u>154,824</u>	<u>181,415</u>	<u>229,570</u>

FINANCIAL INFORMATION

Our bank borrowings during the Track Record Period consisted of short-term and long-term bank borrowings for working capital purposes. They were denominated in RMB and were fixed rate borrowings. The interest rates for our unsecured short-term borrowings were 4.59% to 6.06%, 5.52% to 8.64%, 5.95% to 8.5% and 6.6% to 7.2% per annum for the year ended 31 December 2010, 2011 and 2012, and the six months ended 30 June 2013 respectively. The interest rates for our unsecured long-term borrowings were 5.95% to 6.06%, 5.95% to 6.06%, nil and nil per annum for the year ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013, respectively. The interest rates for our secured short-term borrowings were 6.00% to 8.50% and 6.50% to 8.07% per annum for the year ended 31 December 2012 and the six months ended 30 June 2013, respectively.

Our total bank borrowings increased from RMB57.3 million as at 31 December 2010 to RMB72.4 million as at 31 December 2011, to RMB154.8 million as at 31 December 2012, and further to RMB181.4 million as at 30 June 2013, as we increased our bank borrowings primarily to support the capital need as a result of our expanded sales network. During the Track Record Period, our Group had short-term borrowings from banks whilst also maintaining time deposits with banks as the credit facilities obtained from banks could enhance the financial flexibility and liquidity of our Group in funding our ongoing business expansion. We drew bank loans and did not repay them earlier than the repayment schedules with our extra cash so as to maximise the financial liquidity of our Group. We prepare monthly cashflow forecast and review our cash needs to determine the amount of extra cash we can place into short-term deposits (ranging from 21 days to one year). These short-term time deposits can be withdrawn at our discretion prior to maturity, and this also helps us maintaining the long-standing business relationships with our lending banks.

Our related parties (including, among others, the Controlling Shareholders and their family members) provided guarantees to the banking facilities with the carrying amount of RMB104.0 million, RMB164.0 million, RMB295.0 million and RMB265.0 million as at 31 December 2010, 2011 and 2012 and as at 30 June 2013, respectively, and the banking facilities granted by relevant banks amounted to RMB104.0 million, RMB164.0 million, RMB279.0 million and RMB233.1 million as at the respective dates. Our related parties (including, among others, the Controlling Shareholders and their family members, as well as Jinjiang City Hong Sheng Textile and Garment Manufacturing Co., Ltd.* (晉江市鴻升針織製衣有限公司)) provided guarantees to the banking facilities with the carrying amount of RMB345.0 million as at the Latest Practicable Indebtedness Date, and the banking facilities granted by relevant banks amounted to RMB255.8 million as at that date. Upon completion of the Global Offering, all guarantees provided from the Controlling Shareholders and their family members will be fully released. These guarantees will be assumed by our group companies and the relevant loans will not be required to be repaid at the time these guarantees are released.

Other Independent Third Parties (including Yuanfan Apparel and Footwear Manufacture Company of Jinjiang City, Fujian province (福建晉江市遠帆鞋服有限公司) and Mr. Lin Qingyuan (林清遠), the general manager and a shareholder of the company), also provided guarantees to certain banking facilities during the Track Record Period and up to the Latest Practicable Indebtedness Date. These third party guarantors were not guarantee companies and we did not pay any fees for the relevant guarantees. Upon completion of the Global Offering, all guarantees provided from these third party guarantors will be released. These guarantees will be assumed by our group companies and the relevant loans will not be required to be repaid at the time these guarantees are released.

FINANCIAL INFORMATION

We also pledged the land use rights in respect of a land parcel in Quanzhou to secure these banking facilities as at 31 December 2011 and 2012 and 30 June 2013 and as at the Latest Practicable Indebtedness Date. In addition, as at the Latest Practicable Indebtedness Date, we pledged the time deposits of RMB400,000 to secure bills payable.

We are subject to certain conditions and covenants under the terms of our loan agreements with banks. In the loan agreements, we are required to inform or obtain a written consent from the banks upon occurrence of merger, consolidation, acquisition, split-up, share transfer, material increase in bank borrowings, investment in a joint venture, change of business scope, sale or dispose of material assets, change of principal business location, increase or decrease in registered capital, restructuring or initial public offering. In addition, under certain loan agreements, before we pay off the outstanding loan balances, we are required not to provide guarantee in an amount more than one time of the net asset value of our Company. We are not required to obtain consent from any lender under the existing loan agreements with regard to the Global Offering. During the Track Record Period and up to the Latest Practicable Date, we had not breached any material covenant under the loan agreements, nor defaulted on any loan payment.

Except as described above, as at the Latest Practicable Indebtedness Date, we did not have any outstanding loan capital issued or agreed to be issued, bank overdrafts, loans, debt securities, borrowings or other similar indebtedness, liabilities under acceptance (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, finance leases, hire purchase commitments or guarantees.

As at the Latest Practicable Indebtedness Date, we had unutilised unrestricted banking facilities of RMB430,000. Based on our good relationship with local banks, we believe that we are able to obtain additional banking facilities and draw additional bank loans where necessary.

FINANCIAL INFORMATION

Financial Ratios

The table below sets forth a summary of our key financial ratios during the Track Record Period:

Financial Ratios	Formulae	As at/for the year ended 31 December			As at/for the six months ended 30 June
		2010	2011	2012	2013
Profitability ratios:					
1. Growth					
a. Revenue growth		—	45.2%	22.3%	14.4%
b. Net profit growth		—	49.7%	19.5%	16.2%
2. Profit margins					
a. Gross margin	a. Gross profit/Revenue x 100.0%	39.5%	43.6%	45.3%	46.3%
b. Net profit margin before interest and tax	b. Net profit before interest and tax/Revenue x 100.0%	20.7%	22.0%	21.3%	22.2%
c. Net profit margin	c. Net profit after tax/Revenue x 100.0%	14.2%	14.6%	14.3%	14.8%
3. Return on equity					
a. Return on equity	a. Net profit/Average total equity x 100.0%	32.0%	27.6%	22.4%	22.0% ⁽¹⁾
b. Return on total assets . . .	b. Net profit/Total assets x 100.0%	16.3%	14.5%	13.2%	13.4% ⁽¹⁾
Liquidity ratios:					
1. Liquidity ratios					
a. Current ratio	a. Current assets/Current liabilities	2.6	3.1	2.2	2.1
b. Quick ratio	b. (Current assets — Inventories)/ Current liabilities	1.9	2.4	1.7	1.7
2. Turnover ratios					
a. Inventories turnover days .	a. Average inventories/Cost of sales x (365 days or 183 days)	95.3	97.9	111.6	114.3
b. Receivables turnover days (average collection period)	b. Average trade receivables/Revenue x (365 days or 183 days)	34.6	35.5	40.4	42.9
c. Payables turnover days (average payment period)	c. Average trade payables/Cost of sales x (365 days or 183 days)	53.3	31.5	20.9	12.3
Capital adequacy ratio:					
1. Gearing ratio	Total bank borrowing/Total equity x 100.0%	34.6%	22.0%	38.6%	40.5%
2. Debt to net worth ratio					
a. Debt to equity ratio	a. Net debt (Total bank borrowings — bank balances and cash)/Total equity x 100.0%	-13.7%	-33.1%	-10.9%	-19.9%
b. Interest coverage	b. Profit before interest and tax/interest	14.8	10.5	9.4	8.6

Note:

(1) Annualised figures

FINANCIAL INFORMATION

Current Ratio

We maintained a healthy liquidity position throughout the Track Record Period and our current ratio was 2.6, 3.1, 2.2 and 2.1 as at 31 December 2010, 2011 and 2012 and as at 30 June 2013, respectively. The increase in current ratio from 2.6 as at 31 December 2010 to 3.1 as at 31 December 2011 was primarily due to the increase in cash and cash equivalents balance from the capital contribution from our new shareholders. The decrease in current ratio to 2.2 as at 31 December 2012 and further to 2.1 as at 30 June 2013 from 3.1 as at 31 December 2011 was mainly attributable to the increase in bank borrowings to support our business expansion.

Quick Ratio

Moving generally in line with our current ratio, our quick ratio was 1.9, 2.4, 1.7 and 1.7 as at 31 December 2010, 2011 and 2012 and as at 30 June 2013, respectively. The increase in quick ratio from 1.9 as at 31 December 2010 to 2.4 as at 31 December 2011 was primarily due to the increase in cash and cash equivalents balance from the capital contributions from our new shareholders. The decrease in quick ratio to 1.7 as at 31 December 2012 and 30 June 2013 from 2.4 as at 31 December 2011 was mainly attributable to the increase in bank borrowings to support our business expansion.

Gearing Ratio

Our gearing ratio was 34.6%, 22.0%, 38.6% and 40.5% as at 31 December 2010, 2011 and 2012 and as at 30 June 2013, respectively. The lower gearing ratio as at 31 December 2011 was primarily due to the larger equity base as a result of the capital contributions from our new shareholders. The higher gearing ratios as at 31 December 2012 and as at 30 June 2013 were mainly attributable to additional bank borrowings for our expanded business.

Return on Equity

Our return on equity (“ROE”) was 32.0%, 27.6%, 22.4% and 22.0% for the year ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013, respectively. The decrease in ROE from 32.0% for the year ended 31 December 2010 to 27.6% for the year ended 31 December 2011, further to 22.4% for the year ended 31 December 2012, was due to the capital contributions from our new shareholders that led to the increase in total equity.

Return on Total Assets

Our return on assets (“ROA”) was 16.3%, 14.5%, 13.2% and 13.4% for the year ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013, respectively. The slight decrease in ROA from the year ended 31 December 2010 to the year ended 31 December 2011 was mainly due to the increased cash and cash equivalent balance from the capital contributions from our new shareholders. The further decrease in ROA for the year ended 31 December 2012 was primarily due to the increase in our total asset base after completion of our new office buildings in Quanzhou, Fujian province in 2012. The ROA remained relatively stable for the six months ended 30 June 2013.

FINANCIAL INFORMATION

Transferred Financial Assets

Factoring Arrangement

We entered into a trade receivables factoring arrangement in the normal course of business with a bank in the PRC and transferred relevant trade receivables to the bank. As the bank has recourse right against us in the event of default, although we do not retain any rights on the use of the relevant trade receivables after the transfer, we are exposed to default risks relating to the trade receivables. As at 31 December 2010, 2011 and 2012 and 30 June 2013, our trade receivables transferred under the factoring arrangement was nil, RMB9.7 million, nil and nil. The trade receivables transferred under the factoring arrangement as of 31 December 2011 had been fully settled.

Derecognised Bills

We entered into commercial bills receivable discounting agreements (the “Discounting Agreements”) with a bank in the PRC in 2011 and 2012 and completed the transactions of discounting relevant commercial bills receivable (the “Derecognised Bills”) to the bank. The aggregate carrying amount of the Derecognised Bills was approximately RMB75.8 million, RMB49.8 million and RMB17.7 million as at 31 December 2011 and 2012 and 30 June 2013, respectively.

In accordance with the PRC laws, holders of commercial bills receivable generally have right of recourse against issuers and relevant endorsers and debtors in the event of a default. Pursuant to terms of the Discounting Agreements, the bank agreed to renounce the right of recourse against us in the event of default in relation to the Derecognised Bills. We have further received a confirmation letter dated 18 June 2013 from the bank, confirming that the terms of the Discounting Agreements under which the bank shall have no recourse right against us in the event of default in relation to the Derecognised Bills are legally valid and effective. Our PRC legal adviser, Fujian Junli Law Firm, has also advised us that (i) the Discounting Agreements and the conformation letter issued by the bank are legally valid and effective under the PRC laws; (ii) the bank has renounced its recourse right during the effective period of the Discounting Agreements; and (iii) the terms of the Discounting Agreements under which the bank shall have no recourse right against us in relation to the Derecognised Bills are legally valid and effective.

Based on the above, our Directors are of the view that after we completed the transactions of discounting the Derecognised Bills to the bank, we have substantially transferred all relevant risks and rewards to the bank and therefore are not exposed to default risks from the bank as the bank should not have any right of recourse against us in the event of a default. We have derecognised the full amounts of the Derecognised Bills accordingly.

RELATED PARTY TRANSACTION

For the year ended 31 December 2010, Mr. Ding Hui and Mr. Ding Canyang transferred certain trademarks registered under their names to our Group at a nil consideration. Mr. Ding Hui and Mr. Ding Canyang also provided an undertaking, respectively, for certain listing expenses of RMB1.98 million in relation to our prior A-Share listing applications to the CSRC. In addition, during the year ended 31 December 2012, Nuoqi Investment transferred certain software intellectual property rights registered under its name to the Group at a nil consideration. See also the subsection headed “— Indebtedness —

FINANCIAL INFORMATION

Bank Borrowings” in this section for the guarantees provided by the related parties to the banking facilities and the subsection headed “— Net Current Assets — Trade and Bills Payables” in this section for the guarantees provided by the related parties to the bills payable during the Track Record Period.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As at the Latest Practicable Date, we had not entered into any off-balance sheet transactions.

WORKING CAPITAL

Taking into account our cash generated from operating activities, the net proceeds of the Global Offering and our credit facilities maintained with our banks and financial institutions, we believe that we will have sufficient working capital available for our operations for the 12 months following the date of this prospectus.

QUANTITATIVE AND QUALITATIVE INFORMATION ABOUT MARKET RISKS

We are, in the normal course of business, exposed to market risk such as interest rate risk and credit risk. Our risk management strategy aims to minimise the adverse effects of these risks on our financial performance.

Interest Rate Risk

We are exposed to fair value interest rate risk in relation to fixed-rate bank borrowings and cash flow interest rate risk in relation to variable-rate bank balances as these balances carry interests at prevailing market rates. We currently do not have an interest rate hedging policy. However, our Directors monitor interest rate exposure and will consider hedging significant interest rate exposure should the need arise. Our Directors consider that the exposure to our Group arising from cash flow interest rate risk is limited and no sensitivity analysis is therefore prepared.

Credit Risk

Our credit risk is primarily attributable to trade and other receivables in respect of our franchisees as well as department stores which we entered into concession agreement with. We trade only with recognised and creditworthy franchisees and counterparties. We have a credit policy in place and our exposures to the credit risk related to trade receivables are monitored on an on-going basis. Our credit policy requires us to review the sales volume and past payment history in respect of our franchisees as well as department stores, and propose the applicable credit terms, which will be reviewed and approved by our management. Our credit policy also requires us to monitor the status of our trade and other receivables, including their aging and collection status, on a monthly basis.

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE HONG KONG LISTING RULES

Our Directors confirm that as at the Latest Practicable Date, there was no circumstance which would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Hong Kong Listing Rules.

FINANCIAL INFORMATION

PROFIT FORECAST FOR THE YEAR ENDING 31 DECEMBER 2013

We believe that on the bases and assumptions as set forth in Appendix III to this prospectus, and in the absence of unforeseen circumstances, our consolidated profit for the year ending 31 December 2013 is expected to be not less than RMB80.2 million (approximately HK\$101.6 million). The profit forecast has been prepared by our Directors based on our audited consolidated financial information for six months ended 30 June 2013, our unaudited management accounts for the four months ended 31 October 2013 and a forecast of the results for the remaining two months ending 31 December 2013.

The profit forecast is presented on a basis consistent in all material respects with the accounting policies currently adopted by us as set out in the Accountants' Report in Appendix I to this prospectus.

The unaudited pro forma forecast earnings per Share for the year ending 31 December 2013 is expected to be not less than RMB0.13. This amount has been calculated based on the forecasted consolidated profit for the year ending 31 December 2013 and the weighted average number of Shares outstanding during the year ending 31 December 2013, adjusted as if our Company had been listed since 1 January 2013 of 600,000,000 Shares, without taking into account any Shares which may be allotted and issued upon the exercise of the Over-allotment Option.

Average Selling Price Sensitivity Analysis

The sensitivity analysis below shows the impact of variations of 1.0%, 5.0% and 10.0% in the average selling prices of our products, which in turn affect our projected revenue and net profit for the year ending 31 December 2013:

Variations of Projected Average Selling Prices	Increase/(decrease) in	
	Revenue	Net profit
	RMB'000	RMB'000
1.0% increase	6,765	1,333
5.0% increase	33,822	6,663
10.0% increase	67,645	13,326
1.0% decrease	(6,765)	(1,333)
5.0% decrease	(33,822)	(6,663)
10.0% decrease	(67,645)	(13,326)

DIVIDEND POLICY

Our Board of Directors is responsible for submitting proposals in respect of dividend payments, if any, to the Shareholders' general meeting for approval. Our dividend distribution was based on our profit available for appropriation. Under the PRC Company Law and our Articles of Association, all of our Shareholders holding the same class of shares have equal rights to dividends and other distributions appropriations to their shareholdings. We declared dividends in the amount of nil, nil and RMB10.5 million for the year ended 31 December 2010, 2011 and 2012, respectively. Dividends paid in prior periods may not be indicative of future dividend payments. We cannot guarantee when, if and in what form dividends will be paid in the future.

FINANCIAL INFORMATION

Our Directors may recommend a payment of dividends in the future after taking into account our operations, earnings, financial condition, cash requirements and availability, capital expenditure and future development requirements and other factors as it may deem relevant at such time. Subject to the above policy, we intend to recommend annually in subsequent years for the foreseeable future a dividend distribution of not less than 20% of our distributable profit for the year. Such intention does not amount to any guarantee or representation or indication that we must or will declare and pay dividends in such manner or declare and pay any dividends at all.

PROPERTY VALUATION

Particulars of our Group's land use rights are set out in Appendix IV to this prospectus. Jones Lang LaSalle Corporate Appraisal and Advisory Limited has valued the land use rights of our Group as at 31 October 2013. A summary of the value and valuation certificates issued by Jones Lang LaSalle Corporate Appraisal and Advisory Limited are included in Appendix IV to this prospectus.

The table below sets forth the reconciliation of the net book value of relevant land use rights from our audited consolidated financial statements as at 30 June 2013 to the unaudited net book value of our Group's land use rights as at 31 October 2013:

	<u>RMB'000</u>
Net book value of land use rights of our Group as at 30 June 2013	47,846
Amortisation for the four months ended 31 October 2013	<u>(329)</u>
Net book value as at 31 October 2013	47,517
Valuation surplus as at 31 October 2013.	<u>7,807</u>
Valuation as at 31 October per Appendix IV Valuation Report	<u><u>55,324</u></u>

FINANCIAL INFORMATION

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

For illustrative purpose only, the following statement of unaudited pro forma adjusted net tangible assets of our Group prepared in accordance with Rule 4.29 of the Hong Kong Listing Rules is prepared to show the effect on the audited net tangible assets of our Group as at 30 June 2013 and is based on the consolidated net assets derived from the audited financial information of our Group as at 30 June 2013, as set out in Appendix I to this prospectus and adjusted as follows.

The unaudited pro forma adjusted net tangible assets of our Group have been prepared for illustrative purpose only and, because of its nature, it may not give a true picture of the financial position of our Group.

	Audited consolidated net tangible assets of our Group as at 30 June 2013	Estimated net proceeds from the Global Offering	Unaudited pro forma adjusted net tangible assets of our Group	Unaudited pro forma adjusted net tangible assets per Share	
	(RMB'000)	(RMB'000)	(RMB'000)	RMB	HK\$
Based on the Offer					
Price of HK\$2.03 per H Share	447,595	204,600	652,195	1.09	1.38
Based on the Offer					
Price of HK\$2.88 per H Share	447,595	301,503	749,098	1.25	1.58

Note: Please see the section headed “Unaudited Pro Forma Financial Information” in Appendix II to this prospectus for further details regarding the assumptions used and the calculation method.

NO MATERIAL ADVERSE CHANGE

Our Directors have confirmed that as at the date of this prospectus, there had been no material adverse change in the financial or trading position or prospects of our Group since 30 June 2013, and there had been no event since 30 June 2013 which would materially affect the information shown in the Accountants’ Report set out in Appendix I to this prospectus, in each case except as otherwise disclosed herein.

Our Directors have also confirmed that there has not been any material change in our indebtedness and contingent liabilities since the Latest Practicable Indebtedness Date.

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS AND PROSPECTS

Please refer to the “Business — Our Strategies” in this prospectus for a detailed description of our future plans.

USE OF PROCEEDS

We estimate that we will receive net proceeds from the Global Offering of approximately HK\$321.4 million (assuming an Offer Price of HK\$2.46 per H Share, being the mid-point of the indicative range of Offer Price) (equivalent to approximately RMB253.7 million), after deducting the underwriting fees and commissions and estimated expenses payable by us in relation to the Global Offering.

Our Directors intend to apply the net proceeds from the Global Offering for the following purposes:

- approximately HK\$225.9 million (equivalent to approximately RMB178.3 million), or 70.3%, of the net proceeds from the Global Offering, will be used to expand our sales network, including:
 - HK\$80.5 million (equivalent to approximately RMB63.5 million) to HK\$93.1 million (equivalent to approximately RMB73.5 million) for establishing 200 new retail points in 2014. Details of our sales network expansion plans are set out in the paragraph headed “Business — Sales — Retail Network Expansion Plan” in this prospectus; and
 - the remaining of HK\$132.8 million (equivalent to approximately RMB104.8 million) to HK\$145.4 million (equivalent to approximately RMB114.8 million) for our expansion plan from 2015 onward.
- approximately HK\$63.4 million (equivalent to approximately RMB50.0 million), or 19.7%, of the net proceeds from the Global Offering, will be used for the construction of research and development part of our product centre in Shanghai: (i) HK\$31.2 million (equivalent to approximately RMB24.6 million) for the construction of the building; (ii) HK\$15.3 million (equivalent to approximately RMB12.1 million) for the purchase of research and development equipment and machinery; and (iii) HK\$16.9 million (equivalent to approximately RMB13.3 million) for other expenses and costs (such as research materials and consumables, preparation costs, staff benefits and costs, and training costs). For the focused research areas of the product centre, see the subsection headed “Business — Product Planning and Development” in this prospectus for detailed discussion; and
- approximately HK\$32.1 million (equivalent to approximately RMB25.9 million), or 10.0%, of the net proceeds from the Global Offering, will be used as general working capital of our Group.

If the Offer Price is fixed at HK\$2.88 per H Share, being the highest price within the stated Offer Price range, the net proceeds will be increased by approximately HK\$60.7 million. If the Offer Price is fixed at HK\$2.03 per H Share, being the lowest price within the stated Offer Price range, the net

FUTURE PLANS AND USE OF PROCEEDS

proceeds will be reduced by approximately HK\$62.1 million. To the extent our net proceeds are either more or less than expected, we will adjust our allocation of the net proceeds for the above purposes on a pro rata basis.

In the event of any change in our use of the net proceeds of the Global Offering from the purposes described above or in our allocation of the net proceeds for the above purposes, a formal announcement will be made.

To the extent that the net proceeds of the Global Offering are not immediately used for the purposes described above, they will be placed in interest-bearing bank accounts or short term demand deposits with banks in Hong Kong or the PRC.

UNDERWRITING

HONG KONG UNDERWRITERS

CCB International Capital Limited
BOCI Asia Limited
RHB OSK Securities Hong Kong Limited

CO MANAGERS

South China Securities Limited
SBI E2-Capital Financial Services Limited
Essence International Securities (Hong Kong) Limited
Industrial Securities (Hong Kong) Capital Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Hong Kong Public Offering

Hong Kong Underwriting Agreement

We are offering the Hong Kong Public Offer Shares for subscription on the terms and subject to the conditions of this prospectus and the Application Forms at the Offer Price. Subject to the Listing Committee granting the listing of, and permission to deal in, our H Shares in issue and to be issued, and to certain other conditions described in the Hong Kong Underwriting Agreement (including the Joint Bookrunners, on behalf of the Underwriters, and us agreeing to the Offer Price), the Hong Kong Underwriters have agreed severally to subscribe or procure subscribers for the Hong Kong Public Offer Shares which are being offered but are not taken up under the Hong Kong Public Offering on the terms and subject to the conditions of this prospectus, the Application Forms and the Hong Kong Underwriting Agreement.

The Hong Kong Underwriting Agreement is conditional upon and subject to, among other things, the International Underwriting Agreement having been signed and becoming unconditional in accordance with its terms and not having been terminated in accordance with its terms or otherwise.

Grounds for termination

The Joint Bookrunners (for themselves and on behalf of the Hong Kong Underwriters) may in its sole and absolute discretion terminate the Hong Kong Underwriting Agreement with immediate effect by notice in writing to us at any time at or prior to 8:00 a.m. on the Listing Date if:

- (1) there develops, occurs, exists or comes into force:
 - (a) any event or series of events resulting in or representing a calamity or crisis or a change or development involving a prospective change, in local, national, regional or international financial, political, military, industrial, economic, fiscal or market conditions or sentiments (including, without limitation, conditions and sentiments in stock and bond markets, money and foreign exchange markets, investment and credit markets and inter-bank markets) in or affecting Hong Kong, the PRC, the United States,

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Japan, Singapore, Canada, the European Union (or any member thereof), the United Kingdom, or any other jurisdiction relevant to any member of our Group (collectively the “Relevant Jurisdictions”); or

- (b) any new law or regulation or any change or development involving a prospective change in any existing law or regulation, or any change or development involving a prospective change in the interpretation or application thereof by any court or other competent authority in or affecting any of the Relevant Jurisdictions; or
- (c) any event or series of events in the nature of force majeure (including, without limitation, acts of government, strikes, lock-outs, fire, explosion, flooding, civil commotion, riots, public disorder, declaration of a national or international emergency, acts of war, acts of God, acts of terrorism (whether or not responsibility has been claimed), epidemic, pandemic, outbreak of infectious disease (including without limitation SARS, H5N1, H1N1 or H7N9 or swine or avian influenza or such related/ mutated forms), accident or interruption or delay in transportation or economic sanctions) in or affecting any of the Relevant Jurisdictions; or
- (d) without limiting the foregoing, any local, national, regional or international outbreak or escalation of hostilities (whether or not war is or has been declared), act of terrorism (whether or not responsibility has been claimed), or other state of emergency or calamity or crisis in or affecting any of the Relevant Jurisdictions; or
- (e) the imposition or declaration of (i) any moratorium, suspension, restriction or limitation on trading in shares or securities generally on the Stock Exchange, the New York Stock Exchange, the NASDAQ Global Market, NYSE Amex Equities, the Tokyo Stock Exchange, the Shanghai Stock Exchange, the Shenzhen Stock Exchange, the London Stock Exchange or the stock exchange in any other member of the European Union or (ii) any moratorium on, or disruption in, banking activities (commercial or otherwise) or foreign exchange trading or securities settlement or clearing services in or affecting any of the Relevant Jurisdictions; or
- (f) any change or development involving a change or prospective change in taxation or exchange controls (or the implementation of any exchange control) or currency exchange rates or control or foreign investment regulations in or affecting any of the Relevant Jurisdictions (including without limitation any fluctuation in the Hong Kong dollar or Renminbi against any foreign currencies); or
- (g) the commencement by any government authority or other regulatory or political body or law enforcement agency or organization of any public action or investigation against a Director or an announcement by any government authority or regulatory or political body or law enforcement agency or organization that it intends to take any such action; or
- (h) any imposition of economic sanction or withdrawal of trading privileges, in whatever form, directly or indirectly, by or for any of the Relevant Jurisdictions; or

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- (i) any change in the system under which the value of the Hong Kong dollar is linked to that of the United States dollar or the value of the Renminbi is determined by reference to a basket of world currencies or a material devaluation of Hong Kong dollars or the Renminbi against any foreign currency; or
- (j) any change or development or event involving a prospective change in our Group's assets, liabilities, profit, losses, performance, condition, business, financial, earnings, trading position or prospects, or any change in capital stock or long-term debt of our Company or any other member of our Group, or any loss or interference with the assets, operations or business of our Company or any other member of our Group, which (in any such case) is not set forth in the Prospectus; or
- (k) save as disclosed in this prospectus, a demand by any tax authority for payment for any tax liability for any member of our Group; or
- (l) a demand by any creditor for repayment or payment of any indebtednesses of our Group or in respect of which any member of our Group is liable prior to its stated maturity; or
- (m) non-compliance of this prospectus (or any other documents used in connection with the contemplated subscription of the Hong Kong Public Offer Shares) or any aspect of the Global Offering with the Hong Kong Listing Rules or any other applicable law,

and which, in any such case (whether individually or in the aggregate) and in the sole and absolute opinion of the Joint Bookrunners (for themselves and on behalf of the Hong Kong Underwriters):

- (a) is or will or may be materially adverse to, or materially and prejudicially affect, the business or financial or trading position or prospects of our Group as a whole; or
 - (b) has or will or may have a material adverse effect on the success of the Global Offering or the level of Offer Shares being applied for or accepted or the distribution of the Offer Share and/or make it impracticable, inadvisable or inexpedient for any material part of this Agreement, the Hong Kong Public Offering or the Global Offering to be performed or implemented as envisaged; or
 - (c) makes or will or may make it impracticable, inadvisable, or inexpedient to proceed with any part of this Agreement, the Hong Kong Public Offering and/or the Global Offering or the delivery of H Shares on the terms and in the manner contemplated by the Prospectus; or
- (2) any of the following shall have come to the notice of the Joint Bookrunners after the date of the Hong Kong Underwriting Agreement and/or they have reasonable cause to believe:
- (a) that any statement contained in any of the formal notice in relation to the Hong Kong Public Offering or the Offer Documents (as defined in the Hong Kong Underwriting Agreement) was or has become untrue or incorrect in any material respect or misleading in any respect, or that any estimate, forecast, expression of opinion, intention or expectation contained in this prospectus or any notice, advertisement or announcement

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issued by our Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) is not fair and honest and based on reasonable assumptions with reference to the facts and circumstances then subsisting; or

- (b) any matter which would, if the formal notice in relation to the Hong Kong Public Offering or the Offer Documents (as defined in the Hong Kong Underwriting Agreement) and/or any notice, advertisement or announcement issued or used by or on behalf of our Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) were issued at that time, constitute a material omission therefrom; or
- (c) the issue or requirement to issue by our Company of a supplemental prospectus or amendment to the Prospectus; or
- (d) that any of the Warranties (as defined in the Hong Kong Underwriting Agreement) or representations and warranties given by our Company, our Controlling Shareholders and Directors in the International Underwriting Agreement is (or would if repeated at that time be) breached or is untrue or incorrect in any material respect or misleading; or
- (e) any matter, event, act or omission which gives or is likely to give rise to any liability on the part of our Company or any of our Controlling Shareholders and Directors out of or in connection with any breach, inaccuracy and/or incorrectness of the Warranties (as defined in the Hong Kong Underwriting Agreement) and/or the indemnities given by our Company, our Controlling Shareholders, Directors or any of them under the Hong Kong Underwriting Agreement; or
- (f) any event, act or omission which gives rise or is likely to give rise to any material liability of our Company or any of our Controlling Shareholders and Directors pursuant to the indemnities under the Hong Kong Underwriting Agreement; or
- (g) any breach of any of the obligations or undertakings of our Company, our Controlling Shareholders or Directors under this Agreement, the International Underwriting Agreement or any other agreement relating to the Global Offering; or
- (h) any adverse change in or any development involving a prospective adverse change in, or a materialization of, any of the risks set out in the section headed “Risk Factors” in this prospectus in a significant manner; or
- (i) that any profit forecast or estimate which appears in any of the Offer Documents (as defined in the Hong Kong Underwriting Agreement) is or becomes incapable of being met or, in the opinion of the Joint Bookrunners, unlikely to be met; or
- (j) that (i) any Director, chief executive officer or chief financial officer of our Company named in this prospectus seeks to resign or retire, or is removed from office, or (ii) any certificate given by our Company or any of its officers to the Joint Bookrunners under or in connection with this agreement or the Global Offering is false or misleading, or (iii) any Director or any member of senior management named in this prospectus is being charged with an indictable offence or prohibited by operation of law or otherwise

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- disqualified from taking part in the management of a company, or (iv) a regulatory, governmental or administrative authority (including any stock exchange) or law enforcement agency or a political body or organization in any jurisdiction commencing any investigation or other action, or announcing an intention to investigate or take other action, against any Director; or
- (k) the commencement by any judicial, regulatory, governmental or political body or law enforcement agency or organization of any material action, claim or proceedings against any Director of our Company or an announcement by any judicial, regulatory, governmental or political body or law enforcement agency or organization that it intends to take any such action; or
 - (l) save as disclosed in this prospectus, a material contravention by any member of our Group of the Hong Kong Listing Rules or the Companies Ordinance or any applicable laws or regulations; or
 - (m) any material litigation, legal action or claim being threatened or instigated against any member of our Group, our Controlling Shareholders or Directors; or
 - (n) a petition is presented for the winding-up or liquidation of any member of our Group or any member of our Group makes any composition or arrangement with its creditors or enters into a scheme of arrangement or any resolution is passed for the winding-up of any member of our Group or a provisional liquidator, receiver or manager is appointed over all or part of the assets or undertaking of any member of our Group or anything analogous thereto occurs in respect of any member of our Group; or
 - (o) a prohibition on our Company for whatever reason from allotting, issuing or selling the Offer Shares (including the H Shares to be sold pursuant to the exercise of the Over-allotment Option) pursuant to the terms of the Global Offering; or
 - (p) our Company withdraws this prospectus and/or the Application Forms; or
 - (q) approval by the Listing Committee for the listing of, and permission to deal in, the H Shares to be issued or sold (including any H Shares that may be sold pursuant to the exercise of the Over-allotment Option) under the Global Offering is refused or not granted, other than subject to customary conditions, on or before the date of approval of the listing, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or
 - (r) Ernst & Young as the Reporting Accountants, Fujian Junli Law Firm as the legal adviser to our Company on PRC law, Jones Lang La Salle Corporate Appraisal & Advisory Limited as the property valuer and Frost & Sullivan as the industry consultant in relation to the Global Offering, has withdrawn its respective consent to the issue of this prospectus with the inclusion of its reports, letters, summaries of valuations and/or legal opinions (as the case may be) and references to its name included in the form and context in which it respectively appears.

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Undertakings

Undertakings by our Company

Pursuant to the Hong Kong Underwriting Agreement, our Company has undertaken to the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters, inter alia, that except pursuant to the Global Offering, the Over-allotment Option and Options which may be granted with the prior consent of the Joint Bookrunners (for themselves and on behalf of the Underwriters) and unless in compliance with the requirements of the Hong Kong Listing Rules (and only after the consent of the PRC government authority (if so required) has been obtained):

- (a) our Company will not, and will procure that our subsidiaries will not, offer, accept subscription for, pledge, issue, sell, lend, mortgage, assign, charge, contract to issue or sell, sell any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend, or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, Shares or other securities of our Company, shares or other securities of such subsidiaries or any interest therein (including but not limited to, warrants or other convertible or exchangeable securities) (collectively, the “Relevant Group Securities”) or repurchase the Relevant Group Securities or enter into any swap or other arrangement that transfers, in whole or in part, any of the economic consequences of ownership of any Relevant Group Securities or any interest thereon or offer to or agree to do any of the foregoing or announce any intention to do so during the period commencing from the date of the Hong Kong Underwriting Agreement and ending on the date which is six months from the Listing Date (the “First Six Months Period”);
- (b) our Company will not enter into any of the transactions described in paragraph (a) above or agree or contract to or publicly announce any intention to enter into any such transactions such that any of the Controlling Shareholders would cease to be a controlling shareholder (as defined in the Hong Kong Listing Rules) of our Company during period of six months immediately following the expiry of the First Six Months Period (the “Second Six Months Period”); and
- (c) our Company will ensure that if any of the transactions described in paragraph (a) above are carried out during the Second Six Months Period, our Company will take all reasonable steps to ensure that any such act will not create a disorderly or false market for any H Shares or other securities of our Company.

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Undertakings by the Controlling Shareholders

Pursuant to the Hong Kong Underwriting Agreement, each of the Controlling Shareholders has jointly and severally undertaken to us and each of the Sole Global Coordinator, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters that:

- (a) during the period commencing on the date of this prospectus and ending on the expiry date of the First Six Months Period, he shall not, and shall procure that the relevant registered holder(s) and his associates and companies controlled by him and any nominee or trustee holding in trust for him shall not, without the prior written consent of the Joint Bookrunners (for themselves and on behalf of the Underwriters) and unless in compliance with the requirements of the Hong Kong Listing Rules (and only after the consent of the CSRC or any other relevant PRC government authority (if so required) has been obtained):
 - (i) offer, pledge, charge (other than any pledge or charge of our Company's issued share capital after the Global Offering (assuming the Over-allotment Option is not exercised) in favor of an authorized institution as defined in the Banking Ordinance (Cap. 155 of the Laws of Hong Kong) for a bona fide commercial loan), sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, any of the Shares or any securities convertible into or exercisable or exchangeable for, or that represent the right to receive, any of the Shares or securities of our Company beneficially owned by him or the relevant company, nominee or trustee (including any interest in any shares in any company controlled by him) which is directly or indirectly a beneficial owner of any of the Shares or securities of our Company or any interest thereon (the "Relevant Securities");
 - (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the Relevant Securities;
 - (iii) agree (conditionally or unconditionally) to enter into or effect any transaction with the same economic effect as any of the transactions referred to in paragraphs (i) or (ii) above; or
 - (iv) announce any intention to enter into or effect any of the transactions referred to in paragraphs (i), (ii) or (iii) above, which any of the foregoing transactions referred to in paragraphs (i), (ii) or (iii) is to be settled by delivery of Shares or such other securities, in cash or otherwise;
- (b) he shall, and shall procure that his respective associates and companies controlled by him and any nominee or trustees holding in trust for him shall, comply with all the restrictions and requirements under the Hong Kong Listing Rules on the sale, transfer or disposal by him or by the registered holder controlled by him of any Shares; and

UNDERWRITING

- (c) he will not, during the Second Six-Month Period, enter into any of the transactions specified in paragraph (a) above or offer to or agree to or publicly announce any intention to effect any such transaction if, immediately following any sale, transfer or disposal or upon the exercise or enforcement of any option, right, interest or Encumbrance pursuant to such transaction, he will cease to be a “controlling shareholder” (as the term is defined in the Hong Kong Listing Rules) of our Company. In the event that he enters into any of such transactions or offers to or agrees to or contracts to or announces any intention to effect any such transactions in compliance with this paragraph (c), he will take all reasonable steps to ensure that he will not create a disorderly or false market in the securities of our Company.

Undertakings to the Hong Kong Stock Exchange pursuant to the Hong Kong Listing Rules

Undertakings by our Company

Pursuant to Rule 10.08 of the Hong Kong Listing Rules, our Company has undertaken to the Hong Kong Stock Exchange that no further Shares or securities convertible into our Company’s equity securities (whether or not of a class already issued) may be issued by our Company or form the subject of any agreement to such an issue by our Company within six months from the Listing Date (whether or not such issue of Shares or our Company’s securities will be completed within six months from the Listing Date), except in certain circumstances prescribed by Rule 10.08 of the Hong Kong Listing Rules.

Undertakings by the Controlling Shareholders

Pursuant to Rule 10.07 of the Hong Kong Listing Rules, the Controlling Shareholders have undertaken to the Hong Kong Stock Exchange and to our Company that, they will not and will procure that the relevant registered holder(s) will not:

- (a) in the period commencing on the date by reference to which disclosure of their shareholdings is made in this prospectus and ending on the date which is six months from the Listing Date, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares in respect of which they are shown by this prospectus to be the beneficial owner; and
- (b) in the period of six months commencing on the date on which the period referred to in paragraph (a) above expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, they would cease to be our Controlling Shareholders.

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Pursuant to Note 3 to Rule 10.07(2) of the Hong Kong Listing Rules, the Controlling Shareholders have undertaken to the Hong Kong Stock Exchange and to our Company that within the period commencing on the date by reference to which disclosure of their shareholdings in our Company is made in this prospectus and ending on the date which is 12 months from the Listing Date, they will:

- (a) when they pledge or charge any Shares beneficially owned by them in favour of an authorised institution (as defined in the Banking Ordinance (Chapter 155 of the laws of Hong Kong)) pursuant to Note 2 to Rule 10.07(2) of the Hong Kong Listing Rules, immediately inform our Company of such pledge or charge together with the number of Shares so pledged or charged; and
- (b) when they receive indications, either verbal or written, from the pledgee or chargee of any Shares that any of the pledged or charged Shares will be disposed of, immediately inform our Company of such indications.

Our Company will inform the Hong Kong Stock Exchange as soon as we have been informed of matters referred in above by the Controlling Shareholders and disclose such matters by way of announcement pursuant to the requirements under the Hong Kong Listing Rules as soon as possible.

International Offering

In connection with the International Offering, it is expected that our Company will enter into the International Underwriting Agreement with, among others, our Controlling Shareholders and the International Underwriters, on terms and conditions that are substantially similar to the Hong Kong Underwriting Agreement as described above and on the additional terms described below. Under the International Underwriting Agreement, the International Underwriters will severally agree to subscribe or purchase or procure subscribers for the International Offer Shares being offered pursuant to the International Offering.

Over-allotment Option

Our Company is expected to grant to the International Underwriters the Over-allotment Option, exercisable by the Sole Global Coordinator on behalf of the International Underwriters at any time from the date of the Price Determination Date until 30 days after the last date for the lodging of applications under the Hong Kong Public Offering, to require our Company to allot and issue up to an aggregate of 22,500,000 additional H Shares representing 15% of the Offer Shares initially offered under the Global Offering, at the same price per H Share under the International Offering to cover, among other things, over-allocations in the International Offering, if any.

Hard Underwriting Agreement with RHB OSK

On 27 December 2013, RHB OSK entered into an underwriting agreement (the “Hard Underwriting Agreement”) with our Company, pursuant to which RHB OSK agrees to assume, on a fully underwritten basis, an underwriting commitment equivalent to HK\$40.0 million (the “Underwriting Commitment”), provided that, among other things, (i) the Underwriting Agreements having become unconditional and have not been terminated in accordance with their respective terms; and (ii) the

UNDERWRITING

Listing Committee granting listing of, and permission to deal in, the H Shares (and such listing and permission not being subsequently revoked prior to the Listing). The Hard Underwriting Agreement is to be effective conditional upon signing of the Hong Kong Underwriting Agreement.

Upon the fulfillment of the Underwriting Commitment by RHB OSK according to the Hard Underwriting Agreement (if necessary) unless otherwise being waived by our Company, our Company shall pay to RHB OSK upon Listing (i) as one of the Underwriters, an underwriting commission as specified in the sub-section headed “— Commission and Expenses” in this section; and (ii) a bonus subject to the sole discretion of our Company which shall not exceed 1.0% of the proceeds from the Global Offering (including the proceeds from exercise of the Over-allotment Option, if applicable) before deduction of any fees, tax and expenses.

Commissions and Expenses

The Underwriters will receive an underwriting commission of 3.0% of the aggregate Offer Price of all the Offer Shares (including H Shares to be issued pursuant to the Over-allotment Option, if any). For unsubscribed Hong Kong Public Offer Shares reallocated to the International Offering, the underwriting commission will not be paid to the Hong Kong Underwriters but will instead be paid, at the rate applicable to the International Offering, to the Joint Bookrunners and the relevant International Underwriters.

In addition, our Company will pay to CCBI for its own account a bonus at the rate of 0.7% of the aggregate Offer Price of all the Offer Shares. Our Company may further pay to CCBI for its own account a discretionary bonus at the rate of 0.3% of the aggregate Offer Price of all of the Offer Shares.

The aggregate underwriting commission and fees, together with listing fees, SFC transaction levy, the Hong Kong Stock Exchange trading fee, legal and other professional fees, and printing and other expenses relating to the Global Offering payable by us are estimated to amount to approximately HK\$47.6 million, assuming an Offer Price of HK\$2.46 per Share, being the mid-point of the proposed Offer Price range of HK\$2.03 to HK\$2.88, and the Over-allotment Option is not exercised.

UNDERWRITERS' INTERESTS IN OUR COMPANY

The Sole Global Coordinator, the Joint Bookrunners and other Underwriters will receive an underwriting commission. Particulars of these under underwriting commission and expenses are set out in the paragraph headed “— Commission and Expenses” in this section for further information.

Our Company has appointed CCBI as its compliance adviser pursuant to Rules 3A.19 and 19A.05 of the Hong Kong Listing Rules for the period commencing on the Listing Date and ending on the date on which our Company complies with Rule 3A.46 of the Hong Kong Listing Rules in respect of its financial results for the first financial year commencing after such Listing Date, or until the agreement is terminated, whichever is earlier.

Save for their obligations under the Underwriting Agreements, none of the Underwriters is interested legally or beneficially in any shares of any member of our Group nor has any right or option (whether legally enforceable or not) to subscribe for or purchase or to nominate persons to subscribe for or purchase securities in any member of our Group nor any interest in the Global Offering.

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MINIMUM PUBLIC FLOAT

Our Directors and the Sole Global Coordinator will ensure that there will be a minimum 25% of the total issued Shares held in public hands in accordance with Rule 8.08 of the Hong Kong Listing Rules after completion of the Global Offering.

SOLE SPONSOR'S INDEPENDENCE

CCBI is considered to be an independent sponsor pursuant to Rule 3A.07 of the Hong Kong Listing Rules.

STRUCTURE OF THE GLOBAL OFFERING

THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering.

The Global Offering consists of (subject to adjustment and the Over-allotment Option):

- the Hong Kong Public Offering of 15,000,000 H Shares (subject to adjustment as mentioned below) in Hong Kong as described under the subsection headed “— The Hong Kong Public Offering” in this section below; and
- the International Offering of 135,000,000 H Shares (subject to adjustment and the Over-allotment Option as mentioned below) outside the United States in reliance on Regulation S of the Securities Act as described under the subsection headed “— The International Offering” in this section below.

Investors may apply for the Offer Shares under the Hong Kong Public Offering or indicate an interest, if qualified to do so, for the Offer Shares under the International Offering, but may not do both. The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional and/or other investors in Hong Kong. The International Offering will involve selective marketing of the Offer Shares to institutional and professional investors and other investors outside the United States in reliance on Regulation S of the Securities Act. The International Underwriters are soliciting from prospective investors indications of interest in acquiring the Offer Shares in the International Offering. Prospective investors will be required to specify the number of Offer Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price. Investors may apply for the H Shares under the Hong Kong Offering or indicate an interest, if qualified to do so, for the H Shares under the International Offering, but may not do both.

Our Company has obtained the requisite PRC governmental approvals, including the approval of the CSRC, in respect of the Global Offering.

The number of Offer Shares to be offered under the Hong Kong Public Offering and the International Offering respectively may be subject to adjustment as described in the subsection headed “— Pricing and Allocation” in this section.

PRICING AND ALLOCATION

Offer Price

The Offer Price will be not more than HK\$2.88 per H Share and is expected to be not less than HK\$2.03 per H Share, unless otherwise announced not later than the morning of the last day for lodging applications under the Hong Kong Public Offering, as explained below. Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative Offer Price range stated in this prospectus.

STRUCTURE OF THE GLOBAL OFFERING

Price Payable on Application

Applicants under the Hong Kong Public Offering must pay, on application, the maximum indicative Offer Price of HK\$2.88 per Hong Kong Public Offer Share plus 1.0% brokerage, a 0.003% SFC transaction levy and a 0.005% Hong Kong Stock Exchange trading fee, amounting to a total of HK\$2,909.03 for one board lot of 1,000 H Shares. Each Application Form includes a table showing the exact amount payable on certain numbers of Offer Shares. If the Offer Price as finally determined in the manner described below, is less than HK\$2.88, appropriate refund payments (including the brokerage, the SFC transaction levy and the Hong Kong Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants without interest. See the subsection headed “How to Apply for Hong Kong Public Offer Shares — 12. Refund of application monies” in this prospectus for further details.

Determining the Offer Price

The International Underwriters are soliciting from prospective investors indications of interest in acquiring the Shares in the International Offering. Prospective investors will be required to specify the number of Offer Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price. This process, known as “book-building”, is expected to continue up to, and to cease on or around the Price Determination Date.

The Offer Price is expected to be fixed by agreement between the Joint Bookrunners (for themselves and on behalf of the Underwriters) and our Company on the Price Determination Date when market demand for the Offer Shares will be determined. The Price Determination Date is expected to be on or around Friday, 3 January 2014 and in any event, no later than Monday, 6 January 2014.

If, for any reason, our Company and the Joint Bookrunners (on behalf of the Underwriters) are unable to reach agreement on the Offer Price at or before Monday, 6 January 2014, the Global Offering will not proceed and will lapse.

Reduction in Offer Price Range and/or Number of Offer Shares

If, based on the level of interest expressed by prospective institutional, professional and other investors during the book-building process, the Joint Bookrunners (on behalf of the Underwriters) consider it appropriate and together with the consent of our Company, the indicative Offer Price range and/or the number of Offer Shares may be reduced below that stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offering.

In such a case, our Company will, as soon as practicable following the decision to make any such reduction, and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offering, cause to be published in the South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) notice of the reduction in the indicative Offer Price range and/or number of Offer Shares. Such notice will also include confirmation or revision, as appropriate, of the offering statistics as currently set out in the section headed “Summary” in this prospectus and any other financial information which may change as a result of such reduction. The Offer Price, if agreed upon, will be fixed within such revised Offer Price range. In the absence of the publication of any such notice, the Offer Price shall under no circumstances be set outside the Offer Price range indicated in this prospectus.

STRUCTURE OF THE GLOBAL OFFERING

Before submitting applications for Hong Kong Public Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the indicative Offer Price range and/or number of Offer Shares may not be made until the day which is the last day for lodging applications under the Hong Kong Public Offering.

Allocation

The H Shares to be offered in the Hong Kong Public Offering and the International Offering may, in certain circumstances, be reallocated as between these offerings at the discretion of the Joint Bookrunners.

Allocation of the International Offer Shares pursuant to the International Offering will be determined by the Joint Bookrunners and will be based on a number of factors including the level and timing of demand, total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further, and/or hold or sell Shares after Listing. Such allocation may be made to professional, institutional and corporate and/or other investors and is intended to result in a distribution of the Shares on a basis which would lead to the establishment of a stable shareholder base to the benefit of our Company and the Shareholders as a whole.

Allocation of the Hong Kong Public Offer Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Public Offer Shares validly applied for by applicants. The allocation of Hong Kong Public Offer Shares could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Public Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Public Offer Shares.

Announcement of Final Offer Price and Basis of Allocations

The applicable final Offer Price, the level of indications of interest in the International Offering and the basis of allocations of the Hong Kong Public Offer Shares are expected to be announced on Wednesday, 8 January 2014 in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese).

Results of allocations in the Hong Kong Public Offering, including the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants (where applicable) and the number of Hong Kong Public Offer Shares successfully applied for under **WHITE** and **YELLOW** Application Forms, or by applying online through the **White Form eIPO** Service Provider under the **White Form eIPO** Service, will be made available through a variety of channels as described in the subsection headed "How to Apply for Hong Kong Public Offer Shares — 10. Publication of results" in this prospectus.

STRUCTURE OF THE GLOBAL OFFERING

CONDITIONS OF THE GLOBAL OFFERING

Acceptance of all applications for the Offer Shares pursuant to the Hong Kong Public Offering will be conditional upon, among other things:

- the Listing Committee granting listing of, and permission to deal in, the H Shares in issue and to be issued pursuant to the Global Offering (including the Shares which may be made available or issued pursuant to the exercise of the Over-allotment Option), and such listing and permission not having been subsequent revoked prior to the commencement of dealings in the H Shares on the Hong Kong Stock Exchange;
- the Offer Price having been duly agreed on or around the Price Determination Date;
- the execution and delivery of the International Underwriting Agreement on or around the Price Determination Date; and
- the obligations of the Underwriters under each of the International Underwriting Agreement and the Hong Kong Underwriting Agreement becoming and remaining unconditional and not having been terminated in accordance with the terms of the respective agreements,

in each case on or before the dates and times specified in such Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than 30 days after the date of this prospectus.

The consummation of each of the Hong Kong Public Offering and the International Offering is conditional upon, among other things, the other becoming unconditional and not having been terminated in accordance with its terms.

If the above conditions are not fulfilled or waived, prior to the dates and times specified, the Global Offering will lapse and the Hong Kong Stock Exchange will be notified immediately. Notice of the lapse of the Global Offering will cause to be published by us in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on the next day following such lapse. In such eventuality, all application monies will be returned, without interest, on the terms set out in the subsection headed “How to Apply for Hong Kong Public Offer Shares — 12. Refund of Application Monies” in this prospectus. In the meantime, the application monies will be held in separate bank account(s) with the receiving bank(s) or other bank(s) in Hong Kong licenced under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

H Share certificates for the Offer Shares are expected to be issued on Wednesday, 8 January 2014 but will only become valid certificates of title at 8:00 a.m. on Thursday, 9 January 2014, provided that (i) the Global Offering has become unconditional in all respects and (ii) the right of termination as described in the paragraph headed “Underwriting — Underwriting Arrangements and Expenses — Grounds for termination” in this prospectus has not been exercised.

STRUCTURE OF THE GLOBAL OFFERING

THE HONG KONG PUBLIC OFFERING

Number of H Shares Initially Offered

Our Company is initially offering 15,000,000 H Shares at the Offer Price, representing 10% of the 150,000,000 H Shares initially available under the Global Offering, for subscription by the public in Hong Kong. Subject to adjustment as mentioned below, the number of H Shares offered under the Hong Kong Public Offering will represent 2.5% of the total issued share capital of our Company immediately after completion of the Global Offering, assuming that the Over-allotment Option is not exercised. The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. Completion of the Hong Kong Public Offering is subject to the conditions as set out in the subsection headed “— Conditions of the Global Offering” in this section.

Allocation

For allocation purposes only, the Hong Kong Public Offer Shares initially being offered for subscription under the Hong Kong Public Offering (after taking into account any adjustment in the number of Offer Shares allocated between the Hong Kong Public Offering and the International Offering) will be divided equally into two pools (subject to adjustment of odd lot size). Pool A will comprise 7,500,000 Hong Kong Public Offer Shares and Pool B will comprise 7,500,000 Hong Kong Public Offer Shares, both of which are available on a fair basis to successful applicants. All valid applications that have been received for Hong Kong Public Offer Shares with a total amount (excluding brokerage fee, the SFC transaction levy and the Hong Kong Stock Exchange trading fee) of HK\$5 million or below will fall into Pool A and all valid applications that have been received for Hong Kong Public Offer Shares with a total amount (excluding brokerage fee, the SFC transaction levy and the Hong Kong Stock Exchange trading fee) of over HK\$5 million and up to the total value of Pool B, will fall into Pool B.

Applicants should be aware that applications in Pool A and Pool B are likely to receive different allocation ratios. If Hong Kong Public Offer Shares in one pool (but not both pools) are undersubscribed, the surplus Hong Kong Public Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly. Applicants can only receive an allocation of Hong Kong Public Offer Shares from either Pool A or Pool B but not from both pools and may only apply for Hong Kong Public Offer Shares in either Pool A or Pool B. In addition, multiple or suspected multiple applications within either pool or between pools will be rejected. No application will be accepted from applicants for more than 7,500,000 Hong Kong Public Offer Shares (being 50% of the initial number of Hong Kong Public Offer Shares).

Reallocation

Paragraph 4.2 of the Practice Note 18 of the Hong Kong Listing Rules requires a clawback mechanism to be put in place, which would have the effect of increasing the number of Hong Kong Offer Shares to certain percentages of the total number of Offer Shares offered in the Global Offering if certain prescribed total demand levels are reached. The allocation of the Offer Shares between the Hong Kong Public Offering and the International Offering is subject to adjustment. If the number of Offer

STRUCTURE OF THE GLOBAL OFFERING

Shares validly applied for in the Hong Kong Public Offering represents (i) 15 times or more but less than 50 times, (ii) 50 times or more but less than 100 times, and (iii) 100 times or more, of the number of Offer Shares initially available under the Hong Kong Public Offering, the total number of Offer Shares available under the Hong Kong Public Offering will be increased to 45,000,000, 60,000,000 and 75,000,000 H Shares, respectively, representing 30% (in the case of (i)), 40% (in the case of (ii)) and 50% (in the case of (iii)), respectively, of the total number of Offer Shares initially available under the Global Offering (before any exercise of the Over-allotment Option). In such cases, the number of Offer Shares allocated in the International Offering will be correspondingly reduced, in such manner as the Joint Bookrunners deem appropriate, and such additional Offer Shares will be allocated to Pool A and Pool B equally.

If the Hong Kong Public Offer Shares are not fully subscribed, the Joint Bookrunners have the authority to reallocate all or any unsubscribed Hong Kong Public Offer Shares to the International Offering, in such proportions as the Joint Bookrunners deem appropriate. In addition, the Joint Bookrunners may reallocate International Offer Shares from the International Offering to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering.

The Offer Shares to be offered in the Hong Kong Public Offering and the International Offering may, in certain circumstances, be reallocated as between these offerings at the discretion of the Joint Bookrunners.

Applications

The Joint Bookrunners (on behalf of the Underwriters) may require any investor who has been offered Offer Shares under the International Offering, and who has made an application under the Hong Kong Public Offering to provide sufficient information to the Joint Bookrunners so as to allow it to identify the relevant applications under the Hong Kong Public Offering and to ensure that it is excluded from any application for Offer Shares under the Hong Kong Public Offering.

Each applicant under the Hong Kong Public Offering will also be required to give an undertaking and confirmation in the application submitted by him that he and any person for whose benefit he is making the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering, and such applicant's application is liable to be rejected if the said undertaking or confirmation is breached or untrue (as the case may be) or it has been or will be placed or allocated Offer Shares under the International Offering.

References in this prospectus to applications, Application Forms, application monies or the procedure for application relate solely to the Hong Kong Public Offering.

THE INTERNATIONAL OFFERING

Number of Offer Shares Offered

The number of the Offer Shares to be initially offered for subscription by our Company under the International Offering will be 135,000,000 H Shares, representing 90% of the Offer Shares under the Global Offering. The International Offering is subject to the Hong Kong Public Offering becoming unconditional.

STRUCTURE OF THE GLOBAL OFFERING

Allocation

Pursuant to the International Offering, the International Underwriters will conditionally place the International Offer Shares with institutional and professional investors and other investors expected to have a sizeable demand for the International Offer Shares in Hong Kong and other jurisdictions outside the United States in offshore transaction in reliance on Regulation S of the Securities Act. Allocation of the International Offer Shares pursuant to the International Offering will be effected in accordance with the “book-building” process described in the subsection headed “— Pricing and Allocation” in this section and based on a number of factors, including the level and timing of demand, total size of the relevant investor’s invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further Shares, and/or hold or sell its International Offer Shares after Listing. Such allocation is intended to result in a distribution of the International Offer Shares on a basis which would lead to the establishment of a stable shareholder base to the benefit of our Company and the Shareholders as a whole.

OVER-ALLOTMENT OPTION

Our Company is expected to grant to the International Underwriters the Over-allotment Option, exercisable by the Sole Global Coordinator on behalf of the International Underwriters at any time and from time to time from the Listing Date, up to (and including) the date which is the 30th day after the last day for lodging of Application Forms under the Hong Kong Public Offering. An announcement will be made in the event that the Over-allotment Option is exercised. Pursuant to the Over-allotment Option, our Company may be required to sell up to 22,500,000 H Shares, representing 15% of the maximum number of Offer Shares initially available under the Global Offering, at the Offer Price.

STABILISATION AND OVER-ALLOTMENT

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid for, or purchase, the new securities in the secondary market during a specified period of time to retard and, if possible, prevent any decline in the market price of the securities below the offer price. In Hong Kong, activity aimed at reducing the market price is prohibited and the price at which stabilisation is effected is not permitted to exceed the offer price.

In connection with the Global Offering, CCBI, as Stabilising Manager, or any person acting for it, on behalf of the Underwriters, may, to the extent permitted by applicable laws of Hong Kong or elsewhere, over-allocate or effect any other transactions with a view to stabilising or maintaining the market price of the H Shares at a level higher than that which might otherwise prevail in the open market for a limited period after the Listing Date. Any market purchases of Shares will be effected in compliance with all applicable laws and regulatory requirements. However, there is no obligation on CCBI or any person acting for it to conduct any such stabilising activity, which if commenced, will be done at the absolute discretion of CCBI and may be discontinued at any time. Any such stabilising activity is required to be brought to an end within 30 days of the last day for the lodging of applications under the Hong Kong Public Offering. The number of H Shares that may be over-allocated will not exceed the number of H Shares that may be sold under the Over-allotment Option, namely, 22,500,000 H Shares, which is 15% of the H Shares initially available under the Global Offering.

STRUCTURE OF THE GLOBAL OFFERING

Stabilising action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilising) Rules (Chapter 571W of the Laws of Hong Kong) includes: (i) over-allocation for the purpose of preventing or minimising any reduction in the market price of the H Shares; (ii) selling or agreeing to sell the Offer Shares so as to establish a short position in them for the purpose of preventing or minimising any reduction in the market price of the Offer Shares; (iii) purchasing or subscribing for, or agreeing to purchase or subscribe for, the Offer Shares pursuant to the Over-allotment Option in order to close out any position established under (i) or (ii) above; (iv) purchasing, or agreeing to purchase, any of the Offer Shares for the sole purpose of preventing or minimising any reduction in the market price of the Shares; (v) selling or agreeing to sell any Offer Shares in order to liquidate any position held as a result of those purchases; and (vi) offering or attempting to do anything described in (ii), (iii), (iv) or (v).

Specifically, prospective applicants for and investors in the H Shares should note that:

- CCBI, or any person acting for it, may, in connection with the stabilising action, maintain a long position in the H Shares;
- there is no certainty regarding the extent to which and the time period for which CCBI, or any person acting for it, will maintain such a position;
- liquidation of any such long position by CCBI may have an adverse impact on the market price of the H Shares;
- no stabilising action can be taken to support the price of the H Shares for longer than the stabilising period which will begin on the Listing Date following announcement of the Offer Price, and is expected to expire on the last Business Day immediately before the 30th day after the last date for lodging applications under the Hong Kong Public Offering. After this date, when no further stabilising action may be taken, demand for the Shares, and therefore the price of the H Shares, could fall;
- the price of the H Shares cannot be assured to stay at or above the Offer Price either during or after the stabilising period by taking of any stabilising action; and
- stabilising bids may be made or transactions effected in the course of the stabilising action at any price at or below the Offer Price, which means that stabilising bids may be made or transactions effected at a price below the price paid by applicants for, or investors in, the H Shares.

Our Company will ensure or procure that a public announcement in compliance with the Securities and Futures (Price Stabilising) Rules (Chapter 571W of the Laws of Hong Kong) will be made within seven days of the expiration of the stabilising period.

In connection with the Global Offering, CCBI may over-allocate up to and not more than an aggregate of 22,500,000 additional H Shares and cover such over-allocations by exercising the Over-allotment Option, or by making purchases in the secondary market at prices that do not exceed the Offer Price, or a combination of these means.

STRUCTURE OF THE GLOBAL OFFERING

H SHARES WILL BE ELIGIBLE FOR CCASS

All necessary arrangements have been made enabling the H Shares to be admitted into CCASS. If the Hong Kong Stock Exchange grants the listing of, and permission to deal in, the H Shares and our Company complies with the stock admission requirements of HKSCC, the H Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the H Shares on the Hong Kong Stock Exchange or any other date HKSCC chooses. Settlement of transactions between participants of the Hong Kong Stock Exchange is required to take place in CCASS on the second Business Day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

DEALING ARRANGEMENTS

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Thursday, 9 January 2014, it is expected that dealings in the H Shares on the Hong Kong Stock Exchange will commence at 9:00 a.m. on Thursday, 9 January 2014. The H Shares will be traded in board lots of 1,000 H Shares.

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

1. HOW TO APPLY

If you apply for Hong Kong Public Offer Shares, then you may not apply for or indicate an interest for International Offer Shares.

You may make an application for Hong Kong Public Offer Shares by the following channels:

- use a **WHITE** or **YELLOW** Application Form; or
- apply online via the **White Form eIPO** Service Provider at www.eipo.com.hk.

None of you or your joint applicant(s) may make more than one application whether individually or jointly, except where you are a nominee and provide the required information in your application.

Our Company, the Joint Bookrunners, the **White Form eIPO** Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

2. WHO CAN APPLY

You can apply for Hong Kong Public Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a United States Person (as defined in Regulation S under the U.S. Securities Act); and
- are not a legal or natural person of the PRC (except qualified domestic institutional investors or those who have obtained approval from competent regulatory authorities).

If you wish to apply online through the **White Form eIPO** Service Provider, in addition to the above, you must also: (i) have a valid Hong Kong identity card number; and (ii) provide a valid e-mail address and a contact telephone number. You may only apply by means of the **White Form eIPO** Service Provider if you are an individual application.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the application form must be signed by a duly authorised officer, who must state his representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, the Joint Bookrunners (or their agents or nominees) may accept it at their discretion and on any conditions they think fit, including evidence of the authority of the attorney.

The number of joint applicants may not exceed four and they may not apply by means of **White Form eIPO** Service Provider for the Hong Kong Public Offer Shares.

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

Unless permitted by the Hong Kong Listing Rules, you cannot apply for any Hong Kong Public Offer Shares if you are:

- an existing beneficial owner of Shares in our Company and/or any of our subsidiaries and its associate;
- a Director or chief executive officer of our Company and/or any of our subsidiaries and his/her associate;
- a connected person of our Company or a person who will become a connected person of our Company immediately upon completion of the Global Offering; or
- a person who have been allocated or have applied for any International Offer Shares or otherwise participate in the International Offering.

3. APPLYING FOR HONG KONG PUBLIC OFFER SHARES

(a) Which Application Channel to Use

For Hong Kong Public Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through the **White Form eIPO** Service Provider.

For Hong Kong Public Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form to cause HKSCC Nominees to apply for you.

(b) Where to Collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Monday, 30 December 2013 until 12:00 noon on Friday, 3 January 2014 from:

- (i) any of the following offices of the Hong Kong Underwriters:

CCB International Capital Limited at 12/F., CCB Tower, 3 Connaught Road Central, Central, Hong Kong;

BOCI Asia Limited at 26th Floor, Bank of China Tower, 1 Garden Road, Central, Hong Kong; or

RHB OSK Securities Hong Kong Limited at 12th Floor, World-Wide House, 19 Des Voeux Road Central, Central, Hong Kong.

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

(ii) any of the branches of the following receiving banks:

(a) Standard Chartered Bank (Hong Kong) Limited

	<u>Branch Name</u>	<u>Address</u>
Hong Kong Island	88 Des Voeux Road Branch	88 Des Voeux Road Central, Central
	North Point Centre Branch	Shop G, G/F, North Point Centre, 284 King's Road, North Point
	Aberdeen Branch	Shop 4A, G/F and Shop 1, 1/F, Aberdeen Centre Site 5, No.6-12 Nam Ning Street, Aberdeen
	Wanchai Southorn Branch	Shop C2 on G/F and 1/F to 2/F, Lee Wing Building, No. 156-162 Hennessy Road, Wanchai
Kowloon	Tsimshatsui Branch	G/F, 8A-10 Granville Road, Tsimshatsui
New Territories	Tsuen Wan Branch	Shop C, G/F & 1/F, Jade Plaza, 298 Sha Tsui Road, Tsuen Wan
	New Town Plaza Branch	Shop 215, 222 & 223, Phase 1, New Town Plaza, Shatin

(b) China Construction Bank (Asia) Corporation Limited

	<u>Branch Name</u>	<u>Address</u>
Hong Kong Island	Central Branch	6 Des Voeux Road Central, Central
	Causeway Bay Plaza Branch	G/F, Causeway Bay Plaza 1, Causeway Bay
Kowloon	Mongkok Nathan Road Branch	788 Nathan Road, Mongkok
	Kwun Tong Hoi Yuen Road Branch	56 Hoi Yuen Road, Kwun Tong
New Territories	Yuen Long Branch	68 Castle Peak Road, Yuen Long

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

(c) Bank of Communications Co., Ltd. Hong Kong Branch

	<u>Branch Name</u>	<u>Address</u>
Hong Kong Island	Taikoo Shing Sub-Branch	Shop 38, G/F., CityPlaza 2, 18 Taikoo Shing Road
	Central District Sub-Branch	G/F., Far East Consortium Bldg, 125A Des Voeux Road C., Central
Kowloon	Cheung Sha Wan Plaza Sub-Branch	Unit G04, Cheung Sha Wan Plaza, 833 Cheung Sha Wan Road
	Jordan Sub-Branch	1/F., Booman Building, 37U Jordan Road
New Territories	Tseung Kwan O Sub-Branch	Shop 253–255, Metro City Shopping Arcade, Phase I, Tseung Kwan O
	Ma On Shan Sub-Branch	Shop No. 3062, Level 3, Sunshine City Plaza, Ma On Shan

You can collect a **YELLOW** Application Form and this prospectus during normal business hours from 9:00 a.m. on Monday, 30 December 2013 until 12:00 noon on Friday, 3 January 2014 from the Depository Counter of HKSCC at 2nd Floor, Infinitus Plaza, 199 Des Voeux Road Central, Hong Kong or from your stockbroker.

(c) Time for Lodging Application Forms

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving banks listed above, at the following times:

Monday, 30 December 2013	: 9:00 a.m. to 5:00 p.m.
Tuesday, 31 December 2013	: 9:00 a.m. to 5:00 p.m.
Thursday, 2 January 2014	: 9:00 a.m. to 5:00 p.m.
Friday, 3 January 2014	: 9:00 a.m. to 12:00 noon

The application lists will be open from **11:45 a.m. to 12:00 noon** on **Friday, 3 January 2014**, the last application day or such later time as described in the subsection headed “— 9. Effect of Bad Weather on the Opening of the Applications Lists” in this section below.

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form or applying through the **White Form eIPO** Service Provider, among other things, you:

- (i) undertake to execute all relevant documents and instruct and authorise our Company and/or the Joint Bookrunners (or their agents or nominees), as agents of our Company, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Public Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;
- (ii) agree to comply with the Companies Ordinance and the Articles of Association;
- (iii) confirm that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;
- (iv) confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;
- (v) confirm that you are aware of the restrictions on the Global Offering in this prospectus;
- (vi) agree that none of our Company, the Joint Bookrunners, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering is or will be liable for any information and representations not in this prospectus (and any supplement to it);
- (vii) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any International Offer Shares under the International Offering nor participated in the International Offering;
- (viii) agree to disclose to our Company, our H Share Registrar, receiving banks, the Joint Bookrunners, the Underwriters and/or their respective advisers and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;
- (ix) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of our Company, the Joint Bookrunners and the Underwriters nor any of their respective officers or advisers will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

- (x) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (xi) agree that your application will be governed by the laws of Hong Kong;
- (xii) represent, warrant and undertake that (i) you understand that the Hong Kong Public Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Hong Kong Public Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;
- (xiii) warrant that the information you have provided is true and accurate;
- (xiv) agree to accept the Hong Kong Public Offer Shares applied for, or any lesser number allocated to you under the application;
- (xv) authorise our Company to place your name(s) or the name of the HKSCC Nominees, on our Company's register of members as the holder(s) of any Hong Kong Public Offer Shares allocated to you, and our Company and/or our agents to send any H Share certificate(s) and/or any e-Refund payment instructions and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you have chosen to collect the H Share certificate(s) and/or refund cheque(s) in person;
- (xvi) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;
- (xvii) understand that our Company and the Joint Bookrunners will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Public Offer Shares to you and that you may be prosecuted for making a false declaration;
- (xviii) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to the **White Form eIPO** Service Provider by you or by any one as your agent or by any other person; and
- (xix) (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form; and (ii) you have due authority to sign the Application Form on behalf of that other person as their agent.

You may refer to the **YELLOW** Application Form for details of the additional instructions for the **YELLOW** Application Form.

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

5. APPLYING THROUGH WHITE FORM eIPO SERVICE PROVIDER

(a) General

Individuals who meet the criteria in the subsection headed “— 2. Who can apply” above may apply through the **White Form eIPO** Service Provider through the designated website at **www.eipo.com.hk** for the H Shares to be allotted and registered in their own names.

Detailed instructions for application through the **White Form eIPO** Service Provider are on the designated website at **www.eipo.com.hk**. If you do not follow the instructions, your application may be rejected and may not be submitted to our Company. If you apply through the designated website, you authorise the **White Form eIPO** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **White Form eIPO** Service Provider.

(b) Time for Submitting Applications under the White Form eIPO

You may submit your application to the **White Form eIPO** Service Provider at **www.eipo.com.hk** (24 hours daily, except on the last application day) from **9:00 a.m.** on **Monday, 30 December 2013** until **11:30 a.m.** on **Friday, 3 January 2014**, and the latest time for completing full payment of application monies in respect of such applications will be **12:00 noon** on **Friday, 3 January 2014**, or such later time under the subsection headed “— 9. Effects of Bad Weather on the Opening of the Applications Lists” below.

(c) No Multiple Applications

If you apply by means of **White Form eIPO**, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit through the **White Form eIPO** Service Provider to make an application for Hong Kong Public Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under **White Form eIPO** more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **White Form eIPO** Service Provider or by any other means, all of your applications are liable to be rejected.

(d) Section 40 of the Companies Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies Ordinance (as applied by Section 342E of the Companies Ordinance).

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

(e) Environmental Protection

The obvious advantage of **White Form eIPO** is to save the use of papers via the self-serviced and electronic application process. Computershare Hong Kong Investor Services Limited, being the designated **White Form eIPO** Service Provider, will contribute HK\$2 for each “Fujian Nuoqi Co., Ltd.” **White Form eIPO** application submitted via www.eipo.com.hk to support the funding of “Source of DongJiang — Hong Kong Forest” project initiated by Friends of the Earth (HK).

6. WARNING FOR ELECTRONIC APPLICATIONS

The application for Hong Kong Public Offer Shares through the **White Form eIPO** Service Provider is only a facility provided by the **White Form eIPO** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. Our Company, our Directors, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners and Underwriters take no responsibility for such applications and provide no assurance that any person applying through the **White Form eIPO** Service Provider will be allotted any Hong Kong Public Offer Shares.

7. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Hong Kong Public Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked “For nominees” you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** through **White Form eIPO** Service Provider, is made for your benefit. If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

The term “unlisted company” means a company with no equity securities listed on the Hong Kong Stock Exchange, and the term “statutory control” means you (i) control the composition of the board of directors of the company; (ii) control more than half of the voting power of the company; or (iii) hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

8. HOW MUCH ARE THE HONG KONG PUBLIC OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for the Hong Kong Public Offer Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee in full upon application for the Hong Kong Public Offer Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form or through the **White Form eIPO** Service Provider in respect of a minimum of 1,000 Hong Kong Public Offer Shares. Each application or **electronic application instruction** in respect of more than 1,000 Hong Kong Public Offer Shares must be in one of the numbers set out in the table in the Application Form, or as otherwise specified on the designated website at **www.eipo.com.hk**.

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and the Hong Kong Stock Exchange trading fee are paid to the Hong Kong Stock Exchange (in the case of the SFC transaction levy, collected by the Hong Kong Stock Exchange on behalf of the SFC).

For further details on the Offer Price, see the subsection headed “Structure of the Global Offering — Pricing and Allocation — Price payable on application” in this prospectus.

9. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, 3 January 2014. Instead they will open between 11:45 a.m. and 12:00 noon on the next Business Day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Friday, 3 January 2014 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal in force in Hong Kong that may affect the dates mentioned in the section headed “Expected Timetable” in this prospectus, an announcement will be made in such event.

10. PUBLICATION OF RESULTS

Our Company expects to announce the final Offer Price, the level of indication of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Public Offer Shares on Wednesday, 8 January 2014 in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) on our Company’s website at **www.nuoqi.com.hk** and the website of the Hong Kong Stock Exchange at **www.hkexnews.hk**.

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering will be available at the times and date and in the manner specified below:

- in the announcement to be posted on our Company's website at **www.nuoqi.com.hk** and the Hong Kong Stock Exchange's website at **www.hkexnews.hk** by no later than 9:00 a.m. on Wednesday, 8 January 2014;
- from the designated results of allocations website of our H Share Registrar at **www.iporesults.com.hk** with a "search by ID" function on a 24-hour basis from 8:00 a.m. on Wednesday, 8 January 2014 to 12:00 midnight on Tuesday, 14 January 2014;
- by telephone enquiry line by calling +852 2862 8669 between 9:00 a.m. and 10:00 p.m. from Wednesday, 8 January 2014 to Saturday, 11 January 2014;
- in the special allocation results booklets which will be available for inspection during opening hours from Wednesday, 8 January 2014 to Friday, 10 January 2014 at all the receiving bank branches and sub-branches at the addresses as set out in the paragraph headed "— 3. Applying for Hong Kong Public Offer Shares — Where to collect the Application Forms" above.

If our Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Hong Kong Public Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Further details are set out in the section headed "Structure of the Global Offering" in this prospectus.

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

11. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED HONG KONG PUBLIC OFFER SHARES

You should note the following situations in which the Hong Kong Public Offer Shares will not be allotted to you:

(i) If your application is revoked:

By completing and submitting an Application Form or giving **electronic application instructions** to **White Form eIPO** Service Provider, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with our Company.

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under Section 40 of the Companies Ordinance (as applied by Section 342E of the Companies Ordinance) gives a public notice under that section which excludes or limits that person's responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

(ii) If our Company or our agents exercise their discretion to reject your application:

Our Company, the Joint Bookrunners, the **White Form eIPO** Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

(iii) If the allotment of Hong Kong Public Offer Shares is void:

The allotment of Hong Kong Public Offer Shares will be void if the Listing Committee of the Hong Kong Stock Exchange does not grant permission to list the Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Listing Committee notifies our Company of that longer period within three weeks of the closing date of the application lists.

(iv) If:

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Public Offer Shares and International Offer Shares;
- your Application Form is not completed in accordance with the stated instructions;
- your **electronic application instructions** through the **White Form eIPO** Service Provider are not completed in accordance with the instructions, terms and conditions on the designated website;

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonoured upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- our Company or the Joint Bookrunners believe that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 50% of the Hong Kong Public Offer Shares initially offered under the Hong Kong Public Offering.

12. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum Offer Price of HK\$2.88 per H Share (excluding brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee thereon), or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with "Structure of the Global Offering — Conditions of the Global Offering" in this prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee, will be refunded, without interest or the cheque or banker's cashier order will not be cleared.

Any refund of your application monies will be made on Wednesday, 8 January 2014.

13. DESPATCH/COLLECTION OF H SHARE CERTIFICATES AND REFUND MONIES

You will receive one H Share certificate for all Hong Kong Public Offer Shares allotted to you under the Hong Kong Public Offering (except pursuant to applications made on **YELLOW** Application Forms where the H Share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the H Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- H Share certificate(s) for all the Hong Kong Public Offer Shares allotted to you (for **YELLOW** Application Forms, H Share certificates will be deposited into CCASS as described below); and
- refund cheque(s) crossed "Account Payee Only" in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Hong Kong Public Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per H Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee but without interest). Part of the Hong Kong identity card number/passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque,

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

Subject to arrangement on dispatch/collection of H Share certificates and refund monies as mentioned below, any refund cheques and H Share certificates are expected to be posted on or around Wednesday, 8 January 2014. The right is reserved to retain any H Share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker's cashier's order(s).

H Share certificates will only become valid at 8:00 a.m. on Thursday, 9 January 2014 provided that the Global Offering has become unconditional and the right of termination described in the section headed "Underwriting" in this prospectus has not been exercised. Investors who trade shares prior to the receipt of H Share certificates or the H Share certificates becoming valid do so at their own risk.

Personal Collection

(i) If you apply using a WHITE Application Form

If you apply for 1,000,000 or more Hong Kong Public Offer Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or H Share certificate(s) from our H Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Wednesday, 8 January 2014 or such other date as notified by us in the newspapers.

If you are an individual who is eligible for personal collection, you must not authorise any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorised representative must bear a letter of authorisation from your corporation stamped with your corporation's chop. Both individuals and authorised representatives must produce, at the time of collection, evidence of identity acceptable to our H Share Registrar.

If you do not collect your refund cheque(s) and/or H Share certificate(s) personally within the time specified for collection, they will be despatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Public Offer Shares, your refund cheque(s) and/or H Share certificate(s) will be sent to the address on the relevant Application Form on Wednesday, 8 January 2014, by ordinary post and at your own risk.

(ii) If you apply using a YELLOW Application Form

If you apply for 1,000,000 Hong Kong Public Offer Shares or more, please follow the same instructions as described above. If you have applied for less than 1,000,000 Hong Kong Public Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on Wednesday, 8 January 2014, by ordinary post and at your own risk.

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your H Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant's stock account as stated in your Application Form on Wednesday, 8 January 2014, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

- *If you apply through a designated CCASS participant (other than a CCASS investor participant)*

For Hong Kong Public Offer Shares credited to your designated CCASS participant's stock account (other than CCASS Investor Participant), you can check the number of Hong Kong Public Offer Shares allotted to you with that CCASS participant.

- *If you are applying as a CCASS investor participant*

Our Company will publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering in the manner described in "Publication of Results" above. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Wednesday, 8 January 2014 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Public Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

(iii) If you apply through the White Form eIPO Service Provider

If you apply for 1,000,000 Hong Kong Public Offer Shares or more and your application is wholly or partially successful, you may collect your H Share certificate(s) from our H Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Wednesday, 8 January 2014, or such other date as notified by our Company in the newspapers as the date of despatch/collection of H Share certificates, e-Refund payment instructions or refund cheques.

If you do not collect your H Share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Public Offer Shares, your H Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on Wednesday, 8 January 2014 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be despatched to that bank account in the form of e-Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be despatched to the address as specified in your application instructions in the form of refund cheque(s) by ordinary post at your own risk.

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

14. ADMISSION OF THE H SHARES INTO CCASS

If the Hong Kong Stock Exchange grants the listing of, and permission to deal in, the H Shares and we comply with the stock admission requirements of HKSCC, the H Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the H Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Hong Kong Listing Rules) is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the H Shares to be admitted into CCASS.

15. COMMENCEMENT OF DEALINGS IN THE H SHARES

Dealings in the H Shares on the Hong Kong Stock Exchange are expected to commence at 9:00 a.m. on Thursday, 9 January 2014. The H Shares will be traded in board lots of 1,000 H Shares.

The following is the text of a report on Fujian Nuoqi Co., Ltd., prepared for the purpose of incorporation in this prospectus received from the independent reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong.



22/F CITIC Tower,
1 Tim Mei Avenue,
Central, Hong Kong

30 December 2013

The Directors
Fujian Nuoqi Co., Ltd.
CCB International Capital Limited

Dear Sirs,

We set out below our report on the financial information of Fujian Nuoqi Co., Ltd. (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) comprising the consolidated income statements, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows of the Group for each of the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013 (the “Relevant Periods”), and the consolidated statements of financial position of the Group and the statements of financial position of the Company as at 31 December 2010, 2011 and 2012 and 30 June 2013, together with the notes thereto (the “Financial Information”), and the comparative consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the six months ended 30 June 2012 (the “Interim Comparative Information”), prepared on the basis of preparation set out in note 2.1 of Section II below, for inclusion in the prospectus of the Company dated 30 December 2013 (the “Prospectus”) in connection with the listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The Company was incorporated in the People’s Republic of China (the “PRC”) as a domestic company with limited liability on 14 October 2004 under the name of Quanzhou City Nuoqi Chain Sales Co., Ltd. (泉州市諾奇時裝連鎖銷售有限公司). The Company was renamed Fujian Nuoqi Co., Ltd. (福建諾奇股份有限公司), and transformed into a joint stock company with limited liability on 22 January 2008.

As at the date of this report, the Company has direct interests in its subsidiaries as set out in note 1 of Section II below. All companies now comprising the Group have adopted 31 December as their financial year end date. The statutory financial statements of the companies now comprising the Group were prepared in accordance with the relevant accounting principles in the PRC (“PRC GAAP”) for each of the years ended 31 December 2010, 2011 and 2012. Details of the statutory auditors of the companies comprising the Group during the Relevant Periods are set out in note 1 of Section II below.

For the purpose of this report, the directors of the Company (the “Directors”) have prepared the consolidated financial statements of the Group (the “Underlying Financial Statements”) in accordance with International Financial Reporting Standards (“IFRSs”) issued by the International Accounting Standards Board (the “IASB”). The Underlying Financial Statements for each of the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013 were audited by us in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

The Financial Information set out in this report has been prepared from the Underlying Financial Statements with no adjustments made thereon.

Directors' responsibility

The Directors are responsible for the preparation of the Underlying Financial Statements, the Financial Information and the Interim Comparative Information that give a true and fair view in accordance with IFRSs, and for such internal control as the Directors determine is necessary to enable the preparation of the Underlying Financial Statements, the Financial Information and the Interim Comparative Information that are free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

It is our responsibility to form an independent opinion and a review conclusion on the Financial Information and the Interim Comparative Information, respectively, and to report our opinion and review conclusion thereon to you.

For the purpose of this report, we have carried out procedures on the Financial Information in accordance with Auditing Guideline 3.340 *Prospectuses and the Reporting Accountant* issued by the HKICPA.

We have also performed a review of the Interim Comparative Information in accordance with Hong Kong Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the HKICPA. A review consists principally of making enquiries of management and applying analytical procedures to the financial information and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets and liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an opinion on the Interim Comparative Information.

Opinion in respect of the Financial Information

In our opinion, for the purpose of this report, the Financial Information gives a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2010, 2011 and 2012 and 30 June 2013 and of the consolidated results and cash flows of the Group for each of the Relevant Periods.

Review conclusion in respect of the Interim Comparative Information

Based on our review which does not constitute an audit, for the purpose of this report, nothing has come to our attention that causes us to believe that the Interim Comparative Information is not prepared, in all material respects, in accordance with the same basis adopted in respect of the Financial Information.

I. FINANCIAL INFORMATION

Consolidated income statements

	Notes	Year ended 31 December			Six months ended 30 June	
		2010	2011	2012	2012	2013
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(Unaudited)	
REVENUE	6	322,166	467,778	572,138	276,191	316,099
Cost of sales		<u>(194,819)</u>	<u>(263,599)</u>	<u>(313,245)</u>	<u>(152,251)</u>	<u>(169,754)</u>
Gross profit		127,347	204,179	258,893	123,940	146,345
Other income	6	3,574	9,821	8,253	3,179	6,769
Selling and distribution expenses		(37,696)	(74,295)	(103,917)	(49,800)	(58,320)
Administrative expenses		<u>(27,319)</u>	<u>(38,538)</u>	<u>(47,407)</u>	<u>(19,871)</u>	<u>(28,429)</u>
OPERATING PROFIT		65,906	101,167	115,822	57,448	66,365
Finance costs	7	(4,510)	(9,834)	(12,979)	(5,758)	(8,198)
Finance income	8	<u>639</u>	<u>1,614</u>	<u>6,003</u>	<u>1,959</u>	<u>3,957</u>
Finance costs, net		<u>(3,871)</u>	<u>(8,220)</u>	<u>(6,976)</u>	<u>(3,799)</u>	<u>(4,241)</u>
PROFIT BEFORE TAX	8	62,035	92,947	108,846	53,649	62,124
Income tax expense	11	<u>(16,373)</u>	<u>(24,589)</u>	<u>(27,148)</u>	<u>(13,464)</u>	<u>(15,418)</u>
PROFIT FOR THE YEAR/PERIOD ATTRIBUTABLE TO THE OWNERS OF THE COMPANY		<u>45,662</u>	<u>68,358</u>	<u>81,698</u>	<u>40,185</u>	<u>46,706</u>
EARNINGS PER SHARE ATTRIBUTABLE TO THE OWNERS OF THE COMPANY						
Basic	13	<u>56.8 cents</u>	<u>83.7 cents</u>	<u>90.8 cents</u>	<u>44.6 cents</u>	<u>51.9 cents</u>
Diluted	13	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

Details of the dividends for the Relevant Periods are disclosed in note 12 to the Financial Information.

Consolidated statements of comprehensive income

	Year ended 31 December			Six months ended 30 June	
	2010	2011	2012	2012	2013
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
PROFIT AND TOTAL					
COMPREHENSIVE INCOME					
FOR THE YEAR/PERIOD					
ATTRIBUTABLE TO					
THE OWNERS OF					
THE COMPANY	<u>45,662</u>	<u>68,358</u>	<u>81,698</u>	<u>40,185</u>	<u>46,706</u>

Consolidated statements of financial position

	Notes	As at 31 December			As at
		2010	2011	2012	30 June
		RMB'000	RMB'000	RMB'000	2013
				RMB'000	
NON-CURRENT ASSETS					
Property, plant and equipment	14	35,532	59,402	93,722	89,104
Prepaid land lease payments	16	11,087	11,265	47,344	46,850
Deposits paid	20	1,774	3,448	2,023	26,280
Deferred tax assets	17	<u>552</u>	<u>2,222</u>	<u>4,259</u>	<u>5,015</u>
Total non-current assets		<u>48,945</u>	<u>76,337</u>	<u>147,348</u>	<u>167,249</u>
CURRENT ASSETS					
Inventories	18	61,044	80,315	111,182	100,946
Trade receivables	19	35,381	55,552	70,966	77,310
Prepayments, deposits and other receivables	20	51,430	75,775	90,960	79,681
Pledged deposits	21	2,664	578	500	—
Cash and cash equivalents	21	<u>79,904</u>	<u>181,618</u>	<u>198,136</u>	<u>270,426</u>
Total current assets		<u>230,423</u>	<u>393,838</u>	<u>471,744</u>	<u>528,363</u>
CURRENT LIABILITIES					
Trade and bills payables	22	23,830	21,668	14,245	8,580
Other payables, accruals and other liabilities	23	25,119	32,593	37,263	38,679
Interest-bearing bank borrowings	24	30,285	60,386	154,824	181,415
Tax payable		<u>7,801</u>	<u>13,837</u>	<u>11,871</u>	<u>19,343</u>
Total current liabilities		<u>87,035</u>	<u>128,484</u>	<u>218,203</u>	<u>248,017</u>
NET CURRENT ASSETS		<u>143,388</u>	<u>265,354</u>	<u>253,541</u>	<u>280,346</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>192,333</u>	<u>341,691</u>	<u>400,889</u>	<u>447,595</u>
NON-CURRENT LIABILITIES					
Interest-bearing bank borrowings	24	<u>27,000</u>	<u>12,000</u>	<u>—</u>	<u>—</u>
Net assets		<u>165,333</u>	<u>329,691</u>	<u>400,889</u>	<u>447,595</u>
EQUITY					
Issued capital	25	67,000	75,000	90,000	90,000
Reserves	26	<u>98,333</u>	<u>254,691</u>	<u>310,889</u>	<u>357,595</u>
Total equity		<u>165,333</u>	<u>329,691</u>	<u>400,889</u>	<u>447,595</u>

Consolidated statements of changes in equity

	Attributable to the owners of the Company				
	Issued capital	Share premium	Statutory surplus reserve	Retained profits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2010	67,000	25,499	3,723	23,449	119,671
Profit and total comprehensive income for the year	—	—	—	45,662	45,662
Transfer from retained profits	—	—	4,777	(4,777)	—
At 31 December 2010 and 1 January 2011	67,000	25,499*	8,500*	64,334*	165,333
Profit and total comprehensive income for the year	—	—	—	68,358	68,358
Issue of shares (note 25)	8,000	88,000	—	—	96,000
Transfer from retained profits	—	—	7,354	(7,354)	—
At 31 December 2011 and 1 January 2012	75,000	113,499*	15,854*	125,338*	329,691
Profit and total comprehensive income for the year	—	—	—	81,698	81,698
Transfer from share premium (note 25)	15,000	(15,000)	—	—	—
Transfer from retained profits	—	—	8,495	(8,495)	—
2011 dividend declared (note 12)	—	—	—	(10,500)	(10,500)
At 31 December 2012 and 1 January 2013	90,000	98,499*	24,349*	188,041*	400,889
Profit and total comprehensive income for the period	—	—	—	46,706	46,706
At 30 June 2013	<u>90,000</u>	<u>98,499*</u>	<u>24,349*</u>	<u>234,747*</u>	<u>447,595</u>
At 1 January 2012	75,000	113,499*	15,854*	125,338*	329,691
Profit and total comprehensive income for the period (unaudited)	—	—	—	40,185	40,185
Transfer from share premium (note 25)	15,000	(15,000)	—	—	—
2011 dividend declared (note 12)	—	—	—	(10,500)	(10,500)
At 30 June 2012 (unaudited)	<u>90,000</u>	<u>98,499</u>	<u>15,854</u>	<u>155,023</u>	<u>359,376</u>

* These reserve accounts comprise the consolidated reserves of RMB98,333,000, RMB254,691,000, RMB310,889,000 and RMB357,595,000 in the consolidated statements of financial position as at 31 December 2010, 2011 and 2012 and 30 June 2013, respectively.

Consolidated statements of cash flows

	Notes	Year ended 31 December			Six months ended 30 June	
		2010 RMB'000	2011 RMB'000	2012 RMB'000	2012 RMB'000	2013 RMB'000
(Unaudited)						
CASH FLOWS FROM OPERATING ACTIVITIES						
Profit before tax		62,035	92,947	108,846	53,649	62,124
Adjustments for:						
Bank interest income	8	(639)	(1,614)	(6,003)	(1,959)	(3,957)
Finance costs	7	4,510	9,834	12,979	5,758	8,198
Depreciation	8	5,211	6,514	7,381	3,699	5,470
Amortisation of prepaid land lease payments	8	38	234	730	239	494
Loss on disposal/write-off of items of property, plant and equipment	8	1,901	1,289	1,085	365	1,519
Provision/(write-back of provision) for obsolete inventories, net.	8	(49)	1,430	2,373	1,224	1,495
Impairment/(write-back of impairment) of trade receivables, net.	8	550	1,182	692	(1,020)	791
		73,557	111,816	128,083	61,955	76,134
Decrease/(increase) in inventories		(20,342)	(20,701)	(33,240)	(14,890)	8,741
Decrease/(increase) in trade receivables		(10,288)	(21,353)	(16,106)	17,766	(7,135)
Decrease/(increase) in prepayments, deposits and other receivables.		566	(26,011)	(14,402)	396	(12,978)
Decrease in trade and bills payables		(9,238)	(2,162)	(7,423)	(6,450)	(5,665)
Increase/(decrease) in other payables, accruals and other liabilities		10,034	7,474	4,061	(3,321)	1,416
Cash generated from operations		44,289	49,063	60,973	55,456	60,513
Interest received		639	1,614	6,003	1,959	3,957
Income tax paid.		(15,466)	(20,223)	(31,151)	(16,791)	(8,702)
Net cash flows from operating activities.		29,462	30,454	35,825	40,624	55,768
CASH FLOWS FROM INVESTING ACTIVITIES						
Purchases of items of property, plant and equipment.	14	(30,074)	(31,673)	(41,383)	(23,257)	(2,614)
Additions to prepaid land lease payments.	16	(11,352)	(420)	(37,570)	(36,460)	—
Proceeds from disposal of items of property, plant and equipment		—	—	—	—	243
Decrease in pledged deposits.		17,497	2,086	78	71	500
Net cash flows used in investing activities		(23,929)	(30,007)	(78,875)	(59,646)	(1,871)

	Notes	Year ended 31 December			Six months ended 30 June	
		2010	2011	2012	2012	2013
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
(Unaudited)						
CASH FLOWS FROM FINANCING						
ACTIVITIES						
Proceed from issue of shares	25	—	96,000	—	—	—
New bank borrowings		124,586	178,586	361,835	174,808	124,791
Repayment of bank borrowings		(116,352)	(163,485)	(279,397)	(147,241)	(98,200)
Interest paid		(4,510)	(9,834)	(12,979)	(5,758)	(8,198)
Dividends paid		—	—	(9,891)	(9,891)	—
Net cash flows from financing activities . . .		<u>3,724</u>	<u>101,267</u>	<u>59,568</u>	<u>11,918</u>	<u>18,393</u>
NET INCREASE/(DECREASE) IN CASH						
AND CASH EQUIVALENTS		9,257	101,714	16,518	(7,104)	72,290
Cash and cash equivalents at beginning						
of year/period		<u>70,647</u>	<u>79,904</u>	<u>181,618</u>	<u>181,618</u>	<u>198,136</u>
CASH AND CASH EQUIVALENTS AT						
END OF YEAR/PERIOD		<u>79,904</u>	<u>181,618</u>	<u>198,136</u>	<u>174,514</u>	<u>270,426</u>
ANALYSIS OF BALANCES						
OF CASH AND CASH EQUIVALENTS						
Cash and bank balances	21	4,896	6,968	3,136	9,514	15,426
Non-pledged time deposits						
readily convertible to known amounts						
of cash	21	<u>75,008</u>	<u>174,650</u>	<u>195,000</u>	<u>165,000</u>	<u>255,000</u>
Cash and cash equivalents as stated in the						
consolidated statements of financial						
position		<u>79,904</u>	<u>181,618</u>	<u>198,136</u>	<u>174,514</u>	<u>270,426</u>

Statements of financial position

	Notes	As at 31 December			As at
		2010	2011	2012	30 June
		RMB'000	RMB'000	RMB'000	2013
				RMB'000	
NON-CURRENT ASSETS					
Property, plant and equipment	14	35,532	58,507	92,648	88,029
Interests in subsidiaries	15	—	30,000	60,000	75,000
Prepaid land lease payments	16	11,087	11,265	11,030	10,911
Deposits paid	20	1,774	3,448	1,861	1,500
Deferred tax assets	17	552	1,140	1,660	1,450
Total non-current assets		<u>48,945</u>	<u>104,360</u>	<u>167,199</u>	<u>176,890</u>
CURRENT ASSETS					
Inventories	18	61,044	69,630	90,971	80,253
Trade receivables	19	35,381	18,668	18,852	3,208
Prepayments, deposits and other receivables	20	51,430	67,510	81,908	74,931
Amount due from a subsidiary	15	—	3,178	4,230	7,470
Pledged deposits	21	2,664	578	500	—
Cash and cash equivalents	21	<u>79,904</u>	<u>181,175</u>	<u>198,101</u>	<u>265,449</u>
Total current assets		<u>230,423</u>	<u>340,739</u>	<u>394,562</u>	<u>431,311</u>
CURRENT LIABILITIES					
Trade and bills payables	22	23,830	21,668	14,245	8,580
Other payables, accruals and other liabilities	23	25,119	28,352	30,335	31,126
Amount due to a subsidiary	15	—	—	—	2,296
Interest-bearing bank borrowings	24	30,285	60,386	154,824	181,415
Tax payable		<u>7,801</u>	<u>9,028</u>	<u>7,546</u>	<u>6,635</u>
Total current liabilities		<u>87,035</u>	<u>119,434</u>	<u>206,950</u>	<u>230,052</u>
NET CURRENT ASSETS		<u>143,388</u>	<u>221,305</u>	<u>187,612</u>	<u>201,259</u>
TOTAL ASSETS LESS					
CURRENT LIABILITIES		<u>192,333</u>	<u>325,665</u>	<u>354,811</u>	<u>378,149</u>
NON-CURRENT LIABILITIES					
Interest-bearing bank borrowings	24	<u>27,000</u>	<u>12,000</u>	<u>—</u>	<u>—</u>
Net assets		<u>165,333</u>	<u>313,665</u>	<u>354,811</u>	<u>378,149</u>
EQUITY					
Issued capital	25	67,000	75,000	90,000	90,000
Reserves	26	<u>98,333</u>	<u>238,665</u>	<u>264,811</u>	<u>288,149</u>
Total equity		<u>165,333</u>	<u>313,665</u>	<u>354,811</u>	<u>378,149</u>

II. NOTES TO FINANCIAL INFORMATION

1. CORPORATE INFORMATION

The Company was incorporated in the People's Republic of China (the "PRC") on 14 October 2004 as a domestic company with limited liability under the name of Quanzhou City Nuoqi Chain Sales Co., Ltd. (泉州市諾奇時裝連鎖銷售有限公司). On 22 January 2008, the Company was renamed Fujian Nuoqi Co., Ltd. (福建諾奇股份有限公司) and transformed into a joint stock company with limited liability. The Company's registered office is located at No. 98, Chonghong Avenue, Economic Technology Development Zone, Quanzhou, Fujian Province, China.

During the Relevant Periods, the Company and its subsidiaries, Shanghai Nuoqi Apparel Co., Ltd. and Quanzhou Nuoqi Apparel Co., Ltd., are principally engaged in retailing men's casual apparels.

As at the date of this report, the Company had direct interests in the following subsidiaries, all of which are private companies with limited liability, the particulars of which are set out below:

<u>Company name</u>	<u>Place and date of establishment and place of operations</u>	<u>Nominal value of issued ordinary share capital/paid-up registered capital</u>	<u>Percentage of equity directly attributable to the Company</u>	<u>Principal activities</u>
Shanghai Nuoqi Apparel Co., Ltd. ^{1,*,#} 上海諾奇服飾有限公司 ("Shanghai Nuoqi")	PRC/Mainland China 19 April 2011	RMB60,000,000	100	Trading of men's apparels
Quanzhou Nuoqi Apparel Co., Ltd. ^{2,*,#} 泉州諾奇服飾有限公司 ("QZ Nuoqi")	PRC/Mainland China 15 January 2013	RMB15,000,000	100	Trading of men's apparels

Notes:

- 1 The statutory financial statements of this entity for the period ended 31 December 2011 and the year ended 31 December 2012 prepared in accordance with the relevant accounting principles applicable to enterprises in the PRC ("PRC GAAP") were audited by Fujian Huaxing Certified Public Accountants Co., Ltd. ("Fujian Huaxing") (福建華興會計師事務所有限公司), a firm of certified public accountants registered in the PRC.
 - 2 No audited financial statements have been prepared since its incorporation.
 - 3 The statutory financial statements of the Company for the years ended 31 December 2010, 2011 and 2012 prepared in accordance with the relevant PRC GAAP were audited by Fujian Huaxing.
- * English translations of names for identification purposes only.
- # Registered as domestic companies with limited liability under the laws of the PRC.

2.1 BASIS OF PREPARATION

The Financial Information has been prepared in accordance with IFRSs, which comprise all standards and interpretations approved by the IASB. The principal accounting policies set out in note 3 below, which are in accordance with the IFRSs, are consistently applied in the preparation of the Financial Information throughout the Relevant Periods and the period covered by the Interim Comparative Information. The Group has not early adopted the new and revised IFRSs which are effective for annual periods beginning on or after 1 January 2014.

The Financial Information has been prepared under the historical cost convention. The Financial Information is presented in Renminbi ("RMB"), which is the functional and presentation currencies of the Company and its subsidiaries, and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The Financial Information includes the financial statements of the Company and its subsidiaries (collectively referred to as the “Group”) for the Relevant Periods. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if it results in a deficit balance.

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

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in consolidated income statement. The Group’s share of components previously recognised in other comprehensive income is reclassified to consolidated income statement or retained profits, as appropriate.

2.2 IMPACT OF ISSUED BUT NOT YET EFFECTIVE IFRSs

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in the Financial Information.

IFRS 9	<i>Financial Instruments</i> ³
IFRS 9 and IFRS 7 and IAS 39 Amendments	Amendments to IFRS 9 <i>Financial Instruments — Hedge Accounting</i> and Amendments to IFRS 9, IFRS 7 and IAS 39 ³
IFRS 10, IFRS 12 and IAS 27 (2011) Amendments	Amendments to IFRS 10, IFRS 12 and IAS 27 (2011) — <i>Investment Entities</i> ¹
IAS 19 Amendments	<i>Defined Benefit Plans: Employee Contributions</i> ²
IAS 32 Amendments	Amendments to IAS 32 <i>Financial Instruments: Presentation — Offsetting Financial Assets and Financial Liabilities</i> ¹
IAS 36 Amendments	Amendments to IAS 36 <i>Impairment of Assets — Recoverable Amount Disclosures for Non-Financial Assets</i> ¹
IAS 39 Amendments	Amendments to IAS 39 <i>Financial Instruments: Recognition and Measurement — Novation of Derivatives and continuation of Hedge Accounting</i> ¹
IFRIC 21	<i>Leases</i> ¹

¹ Effective for annual periods beginning on or after 1 January 2014

² Effective for annual periods beginning on or after 1 July 2014

³ Mandatory effective date not yet determined

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**Subsidiaries**

A subsidiary is an entity (including a structured entity) controlled by the Company and/or its other subsidiaries. The Group controls an investee when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., the existing rights that give the Group the current ability to direct the relevant activities of the investee). The Group reassesses whether or not it controls an

investee if facts and circumstances indicate that there are changes to one or more of the elements of control described above. The results of subsidiaries are included in the Company's statement of comprehensive income to the extent of dividends received and receivable. The Company's investments in subsidiaries that are not classified as held for sale in accordance with IFRS 5 are stated at cost less any impairment losses.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets and deferred tax assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises in those expense categories with the function of the impaired asset.

An assessment is made at the end of each of the reporting periods as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the income statement in the period in which it arises.

Related parties

A party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person's family and that person
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Group are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Group are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a); and

- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	5%
Leasehold improvements.	Over the shorter of lease terms and 25%
Furniture, fixtures and office equipment	10% to 20%
Motor vehicles	12.5%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each of the end of the reporting periods.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sale proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building and equipment under construction, which are stated at cost less any impairment losses, and are not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases net of any incentives received from the lessor are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation and the loss arising from impairment are recognised in the income statement.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a “pass-through” arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group’s continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group assesses at the end of each of the reporting periods whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (an incurred “loss event”) and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed

financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to the income statement.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the income statement.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Inventories

Inventories are stated at the lower of cost and net realisable value after making due allowances for obsolete or slow moving items. Cost is determined on the weighted average basis. Net realisable value is based on the estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statements of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statements of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings spending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in the income statement.

Provisions for product warranties granted by the Group on certain products are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each of the reporting periods, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of each of the reporting periods between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of an asset or a liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or a liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each of the reporting periods and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each of the reporting periods and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

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

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) rental income, on a time proportion basis over the lease terms;
- (c) interest income, on an accrual basis using the effective interest rate method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and
- (d) dividend income, when the shareholders' right to receive payment has been established.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Employee benefits*Pension schemes*

The employees of the Group in Mainland China are required to participate in central pension schemes operated by the local municipal government. The Group is required to contribute certain percentages of their payroll costs to the central pension schemes. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension schemes.

Foreign currency transactions

Transactions in foreign currencies are translated into the functional currency of the Group using the exchange rates prevailing at the dates of the transactions. Exchange differences arising from the settlement of such transactions and from the retranslation at the period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statements.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Financial Information requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the Financial Information:

Impairment of non-financial assets

In determining whether an asset is impaired or whether the event previously causing the impairment no longer exists, the Group has to exercise judgement in the area of asset impairment, particularly in assessing: (1) whether an event has occurred that may affect the asset value, or such an event affecting the asset value has not been in existence; (2) whether the carrying value of an asset can be supported by the net present value of future cash flows, which are estimated based upon the continued use of the asset; and (3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could have a material effect on the net present value used in the impairment test.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of each of the reporting periods, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the coming twelve months subsequent to the end of each of the reporting periods, are described below:

Impairment of trade receivables

Impairment of trade receivables is made based on assessment of the recoverability of trade receivables. The identification of impairment requires management judgement and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will impact the carrying value of the receivables as well as impairment or write-back of impairment in the period in which such estimate has been changed.

Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business less estimated selling expenses. These estimates are based on the current market conditions and the historical experience of selling merchandise of similar nature. It could change significantly as a result of changes in customer taste or competitor actions. The Group reassesses these estimates at the end of each of the reporting periods.

5. OPERATING SEGMENT INFORMATION

The Group's primary operating segment is the retailing of men's casual apparels. Since it is the only operating segment of the Group, no further analysis thereof is presented.

Besides, the Group's customers and non-current assets are solely in the Mainland China. No further analysis on the geographical information thereof is presented.

6. REVENUE AND OTHER INCOME

Revenue, which is also the Group's turnover, represents net invoiced value of goods sold, after allowances for returns and trade discounts, net of related taxes. An analysis of revenue and other income is as follows:

	Year ended 31 December			Six months ended 30 June	
	2010	2011	2012	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
<i>Revenue</i>					
Sale of goods	321,739	467,778	572,138	276,191	316,099
Sales of raw materials	427	—	—	—	—
	<u>322,166</u>	<u>467,778</u>	<u>572,138</u>	<u>276,191</u>	<u>316,099</u>
<i>Other income</i>					
Subsidy income*	195	4,886	2,769	1,234	4,015
Membership fee from customers	3,182	4,640	4,775	1,715	2,012
Commission income	—	—	372	28	572
Gross rental income	197	292	313	191	170
Others	—	3	24	11	—
	<u>3,574</u>	<u>9,821</u>	<u>8,253</u>	<u>3,179</u>	<u>6,769</u>

* There are no unfulfilled conditions or contingencies relating to this income.

7. FINANCE COSTS

	Year ended 31 December			Six months ended 30 June	
	2010	2011	2012	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Interest on bank loans, wholly repayable within five years	<u>4,510</u>	<u>9,834</u>	<u>12,979</u>	<u>5,758</u>	<u>8,198</u>

8. PROFIT BEFORE TAX

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

	Notes	Year ended 31 December			Six months ended 30 June	
		2010	2011	2012	2012	2013
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(Unaudited)	
Cost of inventories sold		194,819	263,599	313,245	152,251	169,754
Depreciation	14	5,211	6,514	7,381	3,699	5,470
Charges of retail outlets' decoration costs	20	564	2,955	5,248	2,632	2,913
Amortisation of prepaid land lease payments	16	38	234	730	239	494
Minimum lease payments under operating leases in respect of land and buildings		7,774	11,026	14,417	6,829	6,962
Employee benefit expense (including directors' remuneration (note 9)):						
Salaries and other staff costs		17,219	26,571	34,668	16,418	20,072
Pension scheme contributions		4,633	7,182	9,559	3,982	4,981
		<u>21,852</u>	<u>33,753</u>	<u>44,227</u>	<u>20,400</u>	<u>25,053</u>
Auditors' remuneration		—	—	—	—	—
Loss on disposal/write-off of items of property, plant and equipment		1,901	1,289	1,085	365	1,519
Provision/(write-back of provision) for obsolete inventories, net ¹		(49)	1,430	2,373	1,224	1,495
Impairment/(write-back of impairment) of trade receivables, net ²	19	550	1,182	692	(1,020)	791
Research and development expenditure ²		1,795	3,468	6,764	2,720	1,777
Bank interest income		<u>(639)</u>	<u>(1,614)</u>	<u>(6,003)</u>	<u>(1,959)</u>	<u>(3,957)</u>

¹ The provision/(write-back of provision) for obsolete inventories, net is included in "Cost of sales" on the face of the consolidated income statements.

² The research and development expenditure and impairment/(write-back of impairment) of trade receivables for the year are included in "Administrative expenses" in the consolidated income statements.

9. DIRECTORS', CHIEF EXECUTIVE'S AND SUPERVISORS' REMUNERATION

Directors', chief executive's and supervisors' remuneration for the Relevant Periods, disclosed pursuant to the Listing Rules, is as follows:

	Year ended 31 December			Six months ended 30 June	
	2010	2011	2012	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Fees	—	—	—	—	—
Other emoluments:					
Salaries, bonuses, allowances and benefits in kind	776	1,098	1,082	537	624
Pension scheme contributions	20	31	37	18	17
	<u>796</u>	<u>1,129</u>	<u>1,119</u>	<u>555</u>	<u>641</u>

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the Relevant Periods and the six months ended 30 June 2012 were as follows:

	Fees	Salaries, bonuses, allowances and benefits in kind	Pension scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 December 2010				
Mr. Kong Yuquan	—	50	—	50
Mr. Liang Mingduan	—	50	—	50
Mr. Qi Xiaozhai	—	50	—	50
	<u>—</u>	<u>150</u>	<u>—</u>	<u>150</u>
Year ended 31 December 2011				
Mr. Kong Yuquan	—	50	—	50
Mr. Liang Mingduan	—	37	—	37
Mr. Qi Xiaozhai	—	50	—	50
Mr. Wang Jianqing	—	13	—	13
	<u>—</u>	<u>150</u>	<u>—</u>	<u>150</u>
Year ended 31 December 2012				
Mr. Kong Yuquan	—	50	—	50
Mr. Qi Xiaozhai	—	50	—	50
Mr. Wang Jianqing	—	50	—	50
	<u>—</u>	<u>150</u>	<u>—</u>	<u>150</u>
Six months ended 30 June 2012 (unaudited)				
Mr. Kong Yuquan	—	25	—	25
Mr. Qi Xiaozhai	—	25	—	25
Mr. Wang Jianqing	—	25	—	25
	<u>—</u>	<u>75</u>	<u>—</u>	<u>75</u>
Six months ended 30 June 2013				
Mr. Kong Yuquan	—	25	—	25
Mr. Qi Xiaozhai	—	25	—	25
Mr. Wang Jianqing	—	17	—	17
Mr. Liang Mingduan	—	4	—	4
Ms. Hsu Wai Man	—	4	—	4
	<u>—</u>	<u>75</u>	<u>—</u>	<u>75</u>

Mr. Kong Yuquan, Mr. Liang Mingduan and Mr. Qi Xiaozhai were appointed as independent non-executive directors of the Company on 20 January 2010. On 20 September 2011, Mr. Liang Mingduan resigned and Mr. Wang Jianqing was appointed as independent non-executive director of the Company on 10 October 2011, and Mr. Wang Jianqing resigned on 8 April 2013. Mr. Liang Mingduan was appointed as independent non-executive directors on 29 April 2013 and resigned on 10 May 2013. Ms. Hsu Wai Man was appointed as independent non-executive directors of the Company on 3 June 2013.

There were no other emoluments payable to the independent non-executive directors during the Relevant Periods and the six months ended 30 June 2012.

(b) Supervisors

In respect of individuals, who act as supervisors of the Company as at the date of this report, the remuneration received or receivable from the Group during the Relevant Periods and the six months ended 30 June 2012 is as follows:

	Fees	Salaries, bonuses, allowances and benefits in kind	Pension scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 December 2010				
Ms. Gu Tao	—	63	2	65
Mr. Tang Yuanzhang	—	55	5	60
Ms. Zhang Ailing	—	16	5	21
	—	134	12	146
Year ended 31 December 2011				
Ms. Gu Tao	—	91	1	92
Mr. Tang Yuanzhang	—	4	1	5
Ms. Zhang Ailing	—	84	5	89
Mr. Zheng Zhencheng	—	80	5	85
	—	259	12	271
Year ended 31 December 2012				
Ms. Gu Tao	—	88	1	89
Ms. Zhang Ailing	—	82	6	88
Mr. Zheng Zhencheng	—	80	6	86
	—	250	13	263
Six months ended 30 June 2012 (unaudited)				
Ms. Gu Tao	—	43	1	44
Ms. Zhang Ailing	—	40	3	43
Mr. Zheng Zhencheng	—	40	2	42
	—	123	6	129
Six months ended 30 June 2013				
Ms. Gu Tao	—	58	1	59
Ms. Zhang Ailing	—	48	3	51
Mr. Zheng Zhencheng	—	9	1	10
Mr. Ye Yongguan	—	—	—	—
Ms. Guo Zhuojun	—	—	—	—
	—	115	5	120

Ms. Gu Tao and Mr. Tang Yuanzhang were appointed as supervisors of the Company on 18 January 2008, and Mr. Tang Yuanzhang resigned on 12 January 2011. Ms. Zhang Ailing was appointed as a supervisor of the Company on 8 November 2009 and resigned on 3 June 2013, Mr. Zheng Zhencheng was appointed as a supervisor of the Company on 28 January 2011 and resigned on 3 June 2013. Mr. Ye Yongguan and Ms. Guo Zhuojun were appointed as supervisors of the Company on 3 June 2013.

There were no other emoluments payable to the supervisors during the Relevant Periods and the six months ended 30 June 2012.

(c) **Executive directors**

In respect of individuals, who act as executive directors of the Company as at the date of this report, the remuneration received or receivable from the Group during the Relevant Periods and the six months ended 30 June 2012 is as follows:

	Fees	Salaries, bonuses, allowances and benefits in kind	Pension scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 December 2010				
Mr. Ding Hui	—	240	3	243
Mr. Ding Canaryang	—	180	1	181
Ms. Ding Lixia	—	—	—	—
Mr. Chen Quanyi	—	72	4	76
Mr. Xia Linggen	—	—	—	—
Mr. Yang Weiqiang	—	—	—	—
	<u>—</u>	<u>492</u>	<u>8</u>	<u>500</u>
Year ended 31 December 2011				
Mr. Ding Hui	—	240	5	245
Mr. Ding Canaryang	—	180	4	184
Ms. Ding Lixia	—	—	—	—
Mr. Chen Quanyi	—	125	5	130
Mr. Yang Weiqiang	—	—	—	—
Mr. Jin Wenge	—	144	5	149
	<u>—</u>	<u>689</u>	<u>19</u>	<u>708</u>
Year ended 31 December 2012				
Mr. Ding Hui	—	240	6	246
Mr. Ding Canaryang	—	180	6	186
Ms. Ding Lixia	—	—	—	—
Mr. Chen Quanyi	—	117	6	123
Mr. Yang Weiqiang	—	—	—	—
Mr. Jin Wenge	—	145	6	151
	<u>—</u>	<u>682</u>	<u>24</u>	<u>706</u>
Six months ended 30 June 2012 (unaudited)				
Mr. Ding Hui	—	120	3	123
Mr. Ding Canaryang	—	90	3	93
Ms. Ding Lixia	—	—	—	—
Mr. Chen Quanyi	—	57	3	60
Mr. Yang Weiqiang	—	—	—	—
Mr. Jin Wenge	—	72	3	75
	<u>—</u>	<u>339</u>	<u>12</u>	<u>351</u>
Six months ended 30 June 2013				
Mr. Ding Hui	—	170	3	173
Mr. Ding Canaryang	—	90	3	93
Ms. Ding Lixia	—	—	—	—
Mr. Chen Quanyi	—	61	3	64
Mr. Yang Weiqiang	—	—	—	—
Mr. Jin Wenge	—	113	3	116
	<u>—</u>	<u>434</u>	<u>12</u>	<u>446</u>

Mr. Ding Hui, Mr. Ding Canyang and Ms. Ding Lixia were appointed as executive directors of the Company on 18 January 2008. Mr. Chen Quanyi was appointed as an executive director of the Company on 21 October 2009. Mr. Xia Linggen was appointed as an executive director of the Company on 26 November 2009 and resigned on 15 September 2010. Mr. Yang Weiqiang was appointed as an executive director of the Company on 9 October 2010 and resigned on 24 June 2013. Mr. Jin Wenge was appointed as an executive director of the Company on 28 January 2011.

Mr. Ding Hui is also the chief executive officer of the Company.

There was no arrangement under which a director waived or agreed to waive any remuneration during the Relevant Periods and the six months ended 30 June 2012.

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during the years ended 31 December 2010, 2011 and 2012 and six months ended 30 June 2012 and 2013 included 3, 4, 4, 4 and 3 directors, respectively, details of whose remuneration details are set out in note 9 above. Details of the remuneration of the remaining 2, 1, 1, 1 and 2 highest paid employees, respectively, who are neither a director, chief executive nor a supervisor for each of the Relevant Periods are as follows:

	Year ended 31 December			Six months ended 30 June	
	2010	2011	2012	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Salaries, bonuses, allowances and benefits in kind	257	140	117	65	182
Pension scheme contributions	4	—	6	3	6
	<u>261</u>	<u>140</u>	<u>123</u>	<u>68</u>	<u>188</u>

The number of these highest paid employees who are neither a director, chief executive nor a supervisor whose remuneration fell within the following band is as follows:

	Number of employees				
	Year ended 31 December			Six months ended 30 June	
	2010	2011	2012	2012	2013
				(Unaudited)	
Nil to HK\$1,000,000	<u>2</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>2</u>

During the Relevant Periods, no remuneration was paid by the Group to the directors, chief executive, supervisors or any of the five highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office.

11. INCOME TAX

The provision for Mainland China current income tax is based on a statutory rate of 25% of the assessable profits of the Group as determined in accordance with the PRC Corporate Income Tax Law which was approved and became effective on 1 January 2008.

The major components of the income tax expense for the Relevant Periods are as follows:

	Year ended 31 December			Six months ended 30 June	
	2010	2011	2012	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Group:				(Unaudited)	
Current — Mainland China					
Charge for the year	16,727	25,859	29,185	14,115	16,174
Underprovision/(overprovision) in prior years/periods	(228)	400	—	—	—
Deferred (note 17)	(126)	(1,670)	(2,037)	(651)	(756)
Total tax charge for the year/period	<u>16,373</u>	<u>24,589</u>	<u>27,148</u>	<u>13,464</u>	<u>15,418</u>

A reconciliation of the tax expense applicable to profit before tax at the statutory tax rates to the tax expense at the Group's effective tax rate is as follows:

	Year ended 31 December			Six months ended 30 June	
	2010	2011	2012	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Profit before tax	<u>62,035</u>	<u>92,947</u>	<u>108,846</u>	<u>53,649</u>	<u>62,124</u>
Tax at the statutory tax rate	15,509	23,237	27,212	13,412	15,531
Adjustments in respect of current tax of previous periods	(228)	400	—	—	—
Expenses not deductible for tax	798	1,123	136	71	253
Others	294	(171)	(200)	(19)	(366)
Tax charge at the Group's effective tax rates	<u>16,373</u>	<u>24,589</u>	<u>27,148</u>	<u>13,464</u>	<u>15,418</u>

12. DIVIDEND

	Year ended 31 December			Six months ended 30 June	
	2010	2011	2012	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Dividend declared during the year:					
2011 — RMB14 cents per ordinary share .	<u>—</u>	<u>—</u>	<u>10,500</u>	<u>10,500</u>	<u>—</u>

13. EARNINGS PER SHARE ATTRIBUTABLE TO THE OWNERS OF THE COMPANY

The calculation of basic earnings per share amounts is based on the profits attributable to the owners of the Company for the Relevant Periods and six months ended 30 June 2012, and the weighted number of ordinary shares in issue during the Relevant Periods and six months ended 30 June 2012, which has taken into account of the effect of the issuance of bonus shares as detailed in note 25 to the Financial Information.

The calculation of basic earnings per share is based on:

	<u>Year ended 31 December</u>			<u>Six months ended 30 June</u>	
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2012</u>	<u>2013</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
Earnings				(Unaudited)	
Profit attributable to owners of the Company, used in the basic earnings per share	<u>45,662</u>	<u>68,358</u>	<u>81,698</u>	<u>40,185</u>	<u>46,706</u>
	<u>Number of shares</u>				
	<u>Year ended 31 December</u>			<u>Six months ended 30 June</u>	
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2012</u>	<u>2013</u>
Shares				(Unaudited)	
Weighted average number of ordinary shares in issue used in the basic earnings per share, which has taken into account of the effect of the issuance of bonus shares as detailed in note 25 . . .	<u>80,400,000</u>	<u>81,636,164</u>	<u>90,000,000</u>	<u>90,000,000</u>	<u>90,000,000</u>

There were no potentially dilutive ordinary shares in issue during the Relevant Periods and for the six months ended 30 June 2012 and therefore the diluted earnings per share is equivalent to the basic earnings per share.

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings	Leasehold improvements	Furniture, fixtures and office equipment	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
31 December 2010						
Cost:						
At 1 January 2010	—	13,929	4,046	3,569	—	21,544
Additions	—	12,331	1,961	897	14,885	30,074
Disposals/write-off	—	(8,580)	—	—	—	(8,580)
At 31 December 2010	—	17,680	6,007	4,466	14,885	43,038
Accumulated depreciation:						
At 1 January 2010	—	6,741	1,245	988	—	8,974
Provided during the year	—	3,803	883	525	—	5,211
Disposals/write-off	—	(6,679)	—	—	—	(6,679)
At 31 December 2010	—	3,865	2,128	1,513	—	7,506
Net book value:						
At 31 December 2010	—	13,815	3,879	2,953	14,885	35,532
31 December 2011						
Cost:						
At 1 January 2011	—	17,680	6,007	4,466	14,885	43,038
Additions	—	5,400	1,364	78	24,831	31,673
Disposals/write-off	—	(2,424)	—	—	—	(2,424)
At 31 December 2011	—	20,656	7,371	4,544	39,716	72,287
Accumulated depreciation:						
At 1 January 2011	—	3,865	2,128	1,513	—	7,506
Provided during the year	—	4,765	1,180	569	—	6,514
Disposals/write-off	—	(1,135)	—	—	—	(1,135)
At 31 December 2011	—	7,495	3,308	2,082	—	12,885
Net book value:						
At 31 December 2011	—	13,161	4,063	2,462	39,716	59,402
31 December 2012						
Cost:						
At 1 January 2012	—	20,656	7,371	4,544	39,716	72,287
Additions	126	3,586	4,173	208	34,693	42,786
Transfer	74,071	—	—	—	(74,071)	—
Disposals/write-off	—	(2,543)	—	(153)	—	(2,696)
At 31 December 2012	74,197	21,699	11,544	4,599	338	112,377
Accumulated depreciation:						
At 1 January 2012	—	7,495	3,308	2,082	—	12,885
Provided during the year	—	5,490	1,387	504	—	7,381
Disposals/write-off	—	(1,547)	—	(64)	—	(1,611)
At 31 December 2012	—	11,438	4,695	2,522	—	18,655
Net book value:						
At 31 December 2012	74,197	10,261	6,849	2,077	338	93,722

	<u>Buildings</u>	<u>Leasehold improvements</u>	<u>Furniture, fixtures and office equipment</u>	<u>Motor vehicles</u>	<u>Construction in progress</u>	<u>Total</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
30 June 2013						
Cost:						
At 1 January 2013	74,197	21,699	11,544	4,599	338	112,377
Additions	89	1,238	1,191	96	—	2,614
Disposals/write-off	—	(3,401)	(551)	(731)	—	(4,683)
At 30 June 2013.	<u>74,286</u>	<u>19,536</u>	<u>12,184</u>	<u>3,964</u>	<u>338</u>	<u>110,308</u>
Accumulated depreciation:						
At 1 January 2013	—	11,438	4,695	2,522	—	18,655
Provided during the year	1,763	2,521	977	209	—	5,470
Disposals/write-off	—	(2,061)	(459)	(401)	—	(2,921)
At 30 June 2013.	<u>1,763</u>	<u>11,898</u>	<u>5,213</u>	<u>2,330</u>	<u>—</u>	<u>21,204</u>
Net book value:						
At 30 June 2013.	<u>72,523</u>	<u>7,638</u>	<u>6,971</u>	<u>1,634</u>	<u>338</u>	<u>89,104</u>

Company

	<u>Buildings</u>	<u>Leasehold improvements</u>	<u>Furniture, fixtures and office equipment</u>	<u>Motor vehicles</u>	<u>Construction in progress</u>	<u>Total</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
31 December 2010						
Cost:						
At 1 January 2010	—	13,929	4,046	3,569	—	21,544
Additions	—	12,331	1,961	897	14,885	30,074
Disposals/write-off	—	(8,580)	—	—	—	(8,580)
At 31 December 2010	<u>—</u>	<u>17,680</u>	<u>6,007</u>	<u>4,466</u>	<u>14,885</u>	<u>43,038</u>
Accumulated depreciation:						
At 1 January 2010	—	6,741	1,245	988	—	8,974
Provided during the year	—	3,803	883	525	—	5,211
Disposals/write-off	—	(6,679)	—	—	—	(6,679)
At 31 December 2010	<u>—</u>	<u>3,865</u>	<u>2,128</u>	<u>1,513</u>	<u>—</u>	<u>7,506</u>
Net book value:						
At 31 December 2010	<u>—</u>	<u>13,815</u>	<u>3,879</u>	<u>2,953</u>	<u>14,885</u>	<u>35,532</u>
31 December 2011						
Cost:						
At 1 January 2011	—	17,680	6,007	4,466	14,885	43,038
Additions	—	4,738	1,053	78	24,831	30,700
Disposals/write-off	—	(2,424)	—	—	—	(2,424)
At 31 December 2011	<u>—</u>	<u>19,994</u>	<u>7,060</u>	<u>4,544</u>	<u>39,716</u>	<u>71,314</u>
Accumulated depreciation:						
At 1 January 2011	—	3,865	2,128	1,513	—	7,506
Provided during the year	—	4,701	1,166	569	—	6,436
Disposals/write-off	—	(1,135)	—	—	—	(1,135)
At 31 December 2011	<u>—</u>	<u>7,431</u>	<u>3,294</u>	<u>2,082</u>	<u>—</u>	<u>12,807</u>
Net book value:						
At 31 December 2011	<u>—</u>	<u>12,563</u>	<u>3,766</u>	<u>2,462</u>	<u>39,716</u>	<u>58,507</u>

	<u>Buildings</u>	<u>Leasehold improvements</u>	<u>Furniture, fixtures and office equipment</u>	<u>Motor vehicles</u>	<u>Construction in progress</u>	<u>Total</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
31 December 2012						
Cost:						
At 1 January 2012	—	19,994	7,060	4,544	39,716	71,314
Additions	126	3,585	3,859	—	34,693	42,263
Transfers	74,071	—	—	—	(74,071)	—
Disposals/write-off	—	(2,543)	—	(153)	—	(2,696)
At 31 December 2012	<u>74,197</u>	<u>21,036</u>	<u>10,919</u>	<u>4,391</u>	<u>338</u>	<u>110,881</u>
Accumulated depreciation:						
At 1 January 2012	—	7,431	3,294	2,082	—	12,807
Provided during the year	—	5,235	1,308	494	—	7,037
Disposals/write-off	—	(1,547)	—	(64)	—	(1,611)
At 31 December 2012	<u>—</u>	<u>11,119</u>	<u>4,602</u>	<u>2,512</u>	<u>—</u>	<u>18,233</u>
Net book value:						
At 31 December 2012	<u>74,197</u>	<u>9,917</u>	<u>6,317</u>	<u>1,879</u>	<u>338</u>	<u>92,648</u>
30 June 2013						
Cost:						
At 1 January 2013	74,197	21,036	10,919	4,391	338	110,881
Additions	89	1,118	1,092	96	—	2,395
Disposals/write-off	—	(3,401)	(551)	(731)	—	(4,683)
At 30 June 2013	<u>74,286</u>	<u>18,753</u>	<u>11,460</u>	<u>3,756</u>	<u>338</u>	<u>108,593</u>
Accumulated depreciation:						
At 1 January 2013	—	11,119	4,602	2,512	—	18,233
Provided during the year	1,763	2,387	913	189	—	5,252
Disposals/write-off	—	(2,061)	(459)	(401)	—	(2,921)
At 30 June 2013	<u>1,763</u>	<u>11,445</u>	<u>5,056</u>	<u>2,300</u>	<u>—</u>	<u>20,564</u>
Net book value:						
At 30 June 2013	<u>72,523</u>	<u>7,308</u>	<u>6,404</u>	<u>1,456</u>	<u>338</u>	<u>88,029</u>

At 30 June 2013, the Group was still in the progress of obtaining the building ownership certificates for certain buildings in Mainland China with a net book value of approximately RMB72,523,000. The Directors confirmed that, based on the advice from the Company's legal counsel, as the Group has properly obtained the land use right certificate in respect of the land on which the aforementioned self-used properties are located, they are in the opinion that there is no legal barrier or otherwise for the Group to obtain the building ownership certificates from the relevant Mainland China authority.

15. INTERESTS IN SUBSIDIARIES

Company

	<u>As at 31 December</u>			<u>As at 30 June</u>
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
Unlisted investments, at cost	<u>—</u>	<u>30,000</u>	<u>60,000</u>	<u>75,000</u>

The balances with subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

16. PREPAID LAND LEASE PAYMENTS

	Group			
	As at 31 December			As at 30 June
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Carrying amount at 1 January	—	11,314	11,500	48,340
Additions	11,352	420	37,570	—
Recognised during the year/period	(38)	(234)	(730)	(494)
Carrying amount at 31 December/30 June	11,314	11,500	48,340	47,846
Current portion included in prepayments, deposits and other receivables (note 20)	(227)	(235)	(996)	(996)
Non-current portion	<u>11,087</u>	<u>11,265</u>	<u>47,344</u>	<u>46,850</u>
	Company			
	As at 31 December			As at 30 June
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Carrying amount at 1 January	—	11,314	11,500	11,265
Additions	11,352	420	—	—
Recognised during the year/period	(38)	(234)	(235)	(119)
Carrying amount at 31 December/30 June	11,314	11,500	11,265	11,146
Current portion included in prepayments, deposits and other receivables (note 20)	(227)	(235)	(235)	(235)
Non-current portion	<u>11,087</u>	<u>11,265</u>	<u>11,030</u>	<u>10,911</u>

The leasehold lands situated in Mainland China are held under medium term leases.

The Company's prepaid land lease with carrying values of RMB11,500,000, RMB11,265,000 and RMB11,146,000 at 31 December 2011 and 2012 and 30 June 2013, respectively, was pledged to secure general banking facilities granted to the Group (notes 22 and 24).

17. DEFERRED TAX ASSETS

Group

	<u>Provisions</u>	<u>Unrealised profit of inventories</u>	<u>Accrued liabilities</u>	<u>Total</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
At 1 January 2010	426	—	—	426
Deferred tax credited to the income statement during the year (note 11)	126	—	—	126
At 31 December 2010 and 1 January 2011	552	—	—	552
Deferred tax credited to the income statement during the year (note 11)	653	596	421	1,670
At 31 December 2011 and 1 January 2012	1,205	596	421	2,222
Deferred tax credited to the income statement during the year (note 11)	958	709	370	2,037
At 31 December 2012 and 1 January 2013	2,163	1,305	791	4,259
Deferred tax credited to the income statement during the period (note 11)	610	91	55	756
At 30 June 2013	<u>2,773</u>	<u>1,396</u>	<u>846</u>	<u>5,015</u>
At 1 January 2012	1,205	596	421	2,222
Deferred tax credited to the income statement during the period (unaudited) (note 11)	80	238	333	651
At 30 June 2012 (unaudited)	<u>1,285</u>	<u>834</u>	<u>754</u>	<u>2,873</u>

Company

	<u>Provisions</u>	<u>Accrued liabilities</u>	<u>Total</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
At 1 January 2010	426	—	426
Deferred tax credited to the income statement during the year	126	—	126
At 31 December 2010 and 1 January 2011	552	—	552
Deferred tax credited to the income statement during the year	167	421	588
At 31 December 2011 and 1 January 2012	719	421	1,140
Deferred tax credited to the income statement during the year	349	171	520
At 31 December 2012 and 1 January 2013	1,068	592	1,660
Deferred tax charged to the income statement during the period	(208)	(2)	(210)
At 30 June 2013	<u>860</u>	<u>590</u>	<u>1,450</u>
At 1 January 2012	719	421	1,140
Deferred tax credited to the income statement during the period (unaudited)	113	160	273
At 30 June 2012 (unaudited)	<u>832</u>	<u>581</u>	<u>1,413</u>

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

18. INVENTORIES

	Group			
	As at 31 December			As at 30 June
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Consumables	1,166	2,848	5,266	6,179
Finished goods	59,878	77,467	105,916	94,767
	<u>61,044</u>	<u>80,315</u>	<u>111,182</u>	<u>100,946</u>
	Company			
	As at 31 December			As at 30 June
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Consumables	1,166	2,848	4,827	5,591
Finished goods	59,878	66,782	86,144	74,662
	<u>61,044</u>	<u>69,630</u>	<u>90,971</u>	<u>80,253</u>

19. TRADE RECEIVABLES

	Group			
	As at 31 December			As at 30 June
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables.	37,281	58,634	74,740	81,875
Impairment.	(1,900)	(3,082)	(3,774)	(4,565)
	<u>35,381</u>	<u>55,552</u>	<u>70,966</u>	<u>77,310</u>
	Company			
	As at 31 December			As at 30 June
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables.	37,281	19,805	19,834	3,369
Impairment.	(1,900)	(1,137)	(982)	(161)
	<u>35,381</u>	<u>18,668</u>	<u>18,852</u>	<u>3,208</u>

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally one month, extending up to three months for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the fact that the Group's trade receivable relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances.

An aged analysis of the Group's trade receivables as at the end of each of the reporting periods, based on the invoice date and net of provision, is as follows:

	Group			
	As at 31 December			As at 30 June
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Within 1 month	30,926	43,111	46,264	36,813
1 to 2 months	4,318	10,807	22,713	26,628
2 to 3 months	10	1,187	1,858	12,529
Over 3 months	127	447	131	1,340
	<u>35,381</u>	<u>55,552</u>	<u>70,966</u>	<u>77,310</u>
	Company			
	As at 31 December			As at 30 June
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Within 1 month	30,926	14,563	12,628	1,703
1 to 2 months	4,318	2,607	5,917	1,019
2 to 3 months	10	1,062	307	486
Over 3 months	127	436	—	—
	<u>35,381</u>	<u>18,668</u>	<u>18,852</u>	<u>3,208</u>

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

	Group			
	As at 31 December			As at 30 June
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January	1,350	1,900	3,082	3,774
Impairment losses recognised (note 8)	550	1,182	692	791
At 31 December/30 June	<u>1,900</u>	<u>3,082</u>	<u>3,774</u>	<u>4,565</u>
	Company			
	As at 31 December			As at 30 June
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January	1,350	1,900	1,137	982
Impairment losses recognised/(reversed)	550	(763)	(155)	(821)
At 31 December/30 June	<u>1,900</u>	<u>1,137</u>	<u>982</u>	<u>161</u>

Certain of the above trade receivables as at 31 December 2011 were factored to a bank in exchange for cash and the related bank loans have been included as "Interest-bearing bank borrowings" on the face of the consolidated statement of financial position (note 24).

An aged analysis of the trade receivables that are not considered to be impaired is as follows:

	Group			
	As at 31 December			As at 30 June
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Neither past due nor impaired	32,545	45,370	48,689	38,742
Past due within 3 months	4,565	12,901	26,029	42,632
Past due over 3 months	171	363	22	501
	<u>37,281</u>	<u>58,634</u>	<u>74,740</u>	<u>81,875</u>
	Company			
	As at 31 December			As at 30 June
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Neither past due nor impaired	32,545	15,319	13,282	1,785
Past due within 3 months	4,565	4,123	6,552	1,584
Past due over 3 months	171	363	—	—
	<u>37,281</u>	<u>19,805</u>	<u>19,834</u>	<u>3,369</u>

20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group			
	As at 31 December			As at 30 June
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Prepaid land lease payments (note 16)	227	235	996	996
Prepayments [#]	50,579	72,312	83,754	72,009
Rental deposits	2,044	2,324	2,737	2,360
Other deposits	120	2,791	935	25,647
Value added tax ("VAT") recoverable	—	—	3,353	—
Other receivables	234	1,561	1,208	4,949
	<u>53,204</u>	<u>79,223</u>	<u>92,983</u>	<u>105,961</u>
Less: non-current portion				
Rental deposits	1,774	1,883	1,861	1,500
Deposits for purchase of items of property, plant and equipment	—	1,565	162	24,780
	<u>1,774</u>	<u>3,448</u>	<u>2,023</u>	<u>26,280</u>
	<u>51,430</u>	<u>75,775</u>	<u>90,960</u>	<u>79,681</u>

	Company			
	As at 31 December			As at 30 June
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Prepaid land lease payments (note 16)	227	235	235	235
Prepayments [#]	50,579	65,438	80,046	68,976
Rental deposits	2,044	2,293	2,706	2,330
Other deposits	120	2,431	135	104
Other receivables	234	561	647	4,786
	<u>53,204</u>	<u>70,958</u>	<u>83,769</u>	<u>76,431</u>
Less: non-current portion				
Rental deposits	1,774	1,883	1,861	1,500
Deposits for purchase of items of property, plant and equipment	—	1,565	—	—
	<u>1,774</u>	<u>3,448</u>	<u>1,861</u>	<u>1,500</u>
	<u>51,430</u>	<u>67,510</u>	<u>81,908</u>	<u>74,931</u>

[#] Included in prepayments are decoration costs of retail outlets in shopping malls and department stores of RMB1,176,000, RMB2,905,000, RMB3,626,000 and RMB2,829,000 as at 31 December 2010, 2011 and 2012 and 30 June 2013, respectively, which would be charged to the consolidated income statements in the next twelve months subsequent to the end of each of the reporting periods. RMB564,000, RMB2,955,000, RMB5,248,000 and RMB2,913,000 of such costs were charged to the consolidated income statements for the years ended 31 December 2010, 2011 and 2012 and six months ended 30 June 2013, respectively.

At 31 December 2010, 2011 and 2012 and 30 June 2013, the balances of deposits and other receivables were neither past due nor impaired. Financial assets included in the above balances have no recent history of default.

21. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group			
	As at 31 December			As at 30 June
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Cash and bank balances	4,896	6,968	3,136	15,426
Time deposits	77,672	175,228	195,500	255,000
	<u>82,568</u>	<u>182,196</u>	<u>198,636</u>	<u>270,426</u>
Less: Pledged deposits for bills payable (note 22) . . .	(2,664)	(578)	(500)	—
Cash and cash equivalents	<u>79,904</u>	<u>181,618</u>	<u>198,136</u>	<u>270,426</u>
	Company			
	As at 31 December			As at 30 June
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Cash and bank balances	4,896	6,525	3,101	10,449
Time deposits	77,672	175,228	195,500	255,000
	<u>82,568</u>	<u>181,753</u>	<u>198,601</u>	<u>265,449</u>
Less: Pledged deposits for bills payable (note 22) . . .	(2,664)	(578)	(500)	—
Cash and cash equivalents	<u>79,904</u>	<u>181,175</u>	<u>198,101</u>	<u>265,449</u>

At 31 December 2010, 2011 and 2012 and 30 June 2013, the cash and bank balances of the Group denominated in RMB. RMB is not freely convertible into other currencies; however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between 21 days and 1 year depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and time deposits are deposited with creditworthy banks with no recent history of default.

22. TRADE AND BILLS PAYABLES

An aged analysis of trade and bills payables as at 31 December 2010, 2011 and 2012 and 30 June 2013, based on the invoice date, is as follows:

	Group and Company			
	As at 31 December			As at 30 June
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Within 1 month	1,820	14,700	6,122	6,524
1 to 3 months	—	1,018	2,042	1,212
3 to 6 months	—	167	1,033	406
Over 6 months	349	—	48	438
Trade payables	2,169	15,885	9,245	8,580
Bills payable	21,661	5,783	5,000	—
	<u>23,830</u>	<u>21,668</u>	<u>14,245</u>	<u>8,580</u>

The trade payables are non-interest-bearing and are normally settled on one month's term. The bills payable are non-interest-bearing, and are normally settled in one to six months.

The bills payable were:

- (a) secured by the pledge of certain of the Group's and the Company's time deposits amounting to RMB2,664,000, RMB578,000 and RMB500,000 (note 21) as at 31 December 2010, 2011 and 2012, respectively;
- (b) secured by the pledge of the land use rights located at 泉州經濟技術開發區清蒙區西片區C-09號 with a carrying amount of RMB11,500,000 as at 31 December 2011 (note 16); and
- (c) guaranteed by Mr. Ding Hui and Mr. Ding Canyang as at 31 December 2010, 2011 and 2012.

23. OTHER PAYABLES, ACCRUALS AND OTHER LIABILITIES

	Group			
	As at 31 December			As at 30 June
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Deposit and advance from customers	2,386	4,032	3,225	3,473
Accruals	14,676	17,956	22,085	26,214
VAT payables	3,863	8,637	5,223	3,072
Dividends payable	—	—	609	609
Other payables	4,194	1,968	6,121	5,311
	<u>25,119</u>	<u>32,593</u>	<u>37,263</u>	<u>38,679</u>

	Company			
	As at 31 December			As at 30 June
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Deposit and advance from customers	2,386	2,567	2,003	1,855
Accruals	14,676	16,614	19,000	22,803
VAT payables	3,863	7,369	5,223	2,032
Dividends payable	—	—	609	609
Other payables	4,194	1,802	3,500	3,827
	<u>25,119</u>	<u>28,352</u>	<u>30,335</u>	<u>31,126</u>

Other payables are non-interest-bearing and have an average term of three months.

24. INTEREST-BEARING BANK BORROWINGS

Group and Company

	Notes	As at 31 December 2010		
		Effective interest rate per annum (%)	Maturity	RMB'000
Current				
Bank loans	(a),(d)	4.59–5.841	2011	27,285
Current portion of long term bank loans	(a)	5.953–6.059	2011	<u>3,000</u>
				30,285
Non-current				
Bank loans	(a)	5.953–6.059	2012–2013	<u>27,000</u>
				<u>57,285</u>
	Notes	As at 31 December 2011		
		Effective interest rate per annum (%)	Maturity	RMB'000
Current				
Bank loans	(b),(d)	5.52–8.64/ 110%	2012	45,386
		of the base borrowing rate of the People's Bank of China		
Current portion of long term bank loans	(b)	5.953–6.059	2012	<u>15,000</u>
				60,386
Non-current				
Bank loans	(b)	5.953–6.059	2013	<u>12,000</u>
				<u>72,386</u>

As at 31 December 2012				
	Notes	Effective interest rate per annum (%)	Maturity	RMB'000
Current				
Bank loans	(c),(d)	6.6–8.5	2013	142,824
Current portion of long term bank loans	(c)	5.953–6.059	2013	12,000
				<u>154,824</u>

As at 30 June 2013				
	Notes	Effective interest rate per annum (%)	Maturity	RMB'000
Current				
Bank loans	(c),(d)	6.6–8.069	2013–2014	<u>181,415</u>

Group and Company				
	As at 31 December			As at 30 June
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Bank loans repayable:				
Within one year and on demand	30,285	60,386	154,824	181,415
In the second year	15,000	12,000	—	—
In the third to fifth years,	<u>12,000</u>	—	—	—
Inclusive	<u>57,285</u>	<u>72,386</u>	<u>154,824</u>	<u>181,415</u>

Notes:

- (a) As at 31 December 2010, the bank loans were guaranteed by 福建晉江市遠帆鞋服有限公司, an independent third party, Mr. Ding Hui and his wife, and Mr. Ding Canyang.
- (b) As at 31 December 2011, the bank loans were guaranteed by Mr. Ding Hui and his wife, and Mr. Ding Canyang.
- (c) As at 31 December 2012 and 30 June 2013, the bank loans were guaranteed by 福建晉江市遠帆鞋服有限公司, Mr. Lin Qingyuan (林清遠), the independent third parties, Mr. Ding Hui and his wife, and Mr. Ding Canyang and his wife, and were secured by the pledge of the land use rights located at 泉州經濟技術開發區清蒙區西片區C-09號 with a carrying amount of RMB11,265,000 and RMB11,146,000 as at 31 December 2012 and 30 June 2013, respectively (note 16).
- (d) The Group, certain suppliers and a bank entered into a tripartite agreement, pursuant to which these suppliers transferred to the bank the title of the amounts due from the Group to them for bank loans granted by the bank to the Group. The outstanding amounts of such loans at 31 December 2010, 2011 and 2012 and 30 June 2013 were RMB3,285,000, RMB11,713,000, RMB45,824,000 and RMB68,315,000, respectively.

25. SHARE CAPITAL

	As at 31 December			As at
	2010	2011	2012	30 June
	RMB'000	RMB'000	RMB'000	2013
				RMB'000
Authorised:				
67,000,000 (31 December 2011: 75,000,000; 31 December 2012 and 30 June 2013: 90,000,000) ordinary shares of RMB1 each	67,000	75,000	90,000	90,000
Issued and fully paid:				
67,000,000 (31 December 2011: 75,000,000; 31 December 2012 and 30 June 2013: 90,000,000) ordinary shares of RMB1 each	67,000	75,000	90,000	90,000

During the Relevant Periods, the movements in the Company's issued share capital were as follows:

	Notes	Number of shares in issue	Issued capital RMB'000
Issued:			
As at 1 January 2010, 31 December 2010 and 1 January 2011		67,000,000	67,000
Issue of shares	(b)	8,000,000	8,000
As at 31 December 2011 and 1 January 2012		75,000,000	75,000
Transfer from share premium	(d)	15,000,000	15,000
As at 31 December 2012, 1 January 2013 and 30 June 2013		90,000,000	90,000

Notes:

- (a) Pursuant to a resolution of a shareholders general meeting passed on 14 November 2011, the authorised share capital of the Company was increased from RMB67,000,000 to RMB75,000,000 by the creation of 8,000,000 additional shares of RMB1 each, ranking pari passu in all respects with the existing shares of the Company.
- (b) 8,000,000 shares of RMB1 each were issued for cash on 15 November 2011 at a subscription price of RMB12 per share, which resulted in proceeds of RMB96,000,000, representing share capital and share premium of RMB8,000,000 and RMB88,000,000, respectively, to provide for additional working capital for the Company.
- (c) Pursuant to a resolution of a shareholders general meeting passed on 26 February 2012, the authorised share capital of the Company was increased from RMB75,000,000 to RMB90,000,000 by the creation of 15,000,000 additional shares of RMB1 each, ranking pari passu in all respects with the existing shares of the Company.
- (d) Pursuant to a resolution of a shareholders general meeting passed on 26 February 2012, the Company issued bonus shares on the basis of two bonus shares for every ten shares held to the then shareholders of the Company (note 26).

26. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the Relevant Periods are presented in the consolidated statements of changes in equity of the Financial Information.

In accordance with the relevant regulations applicable in the PRC, the Company and its subsidiaries established in the PRC are required to transfer a certain percentage of their profits after tax, if any, to the enterprise expansion and statutory reserve funds, which are non-distributable, before profit distributions to shareholders. The amounts of the transfers are subject to the approval of the boards of directors of these subsidiaries.

(b) Company

		Share premium	Statutory surplus reserve	Retained profits	Total
	Notes	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2010		25,499	3,723	23,449	52,671
Profit and total comprehensive income for the year		—	—	45,662	45,662
Transfer from retained profits		—	4,777	(4,777)	—
At 31 December 2010 and 1 January 2011		25,499	8,500	64,334	98,333
Profit and total comprehensive income for the year		—	—	52,332	52,332
Issue of shares	25(b)	88,000	—	—	88,000
Transfer from retained profits		—	5,526	(5,526)	—
At 31 December 2011 and 1 January 2012		113,499	14,026	111,140	238,665
Profit and total comprehensive income for the year		—	—	51,646	51,646
Issue of shares	25(d)	(15,000)	—	—	(15,000)
Transfer from retained profits		—	5,213	(5,213)	—
2011 dividend declared	12	—	—	(10,500)	(10,500)
At 31 December 2012 and 1 January 2013		98,499	19,239	147,073	264,811
Profit and total comprehensive income for the period		—	—	23,338	23,338
At 30 June 2013		<u>98,499</u>	<u>19,239</u>	<u>170,411</u>	<u>288,149</u>
At 1 January 2012		113,499	14,026	111,140	238,665
Profit and total comprehensive income for the period (unaudited)		—	—	23,953	23,953
Issue of shares	25(d)	(15,000)	—	—	(15,000)
2011 dividend declared	12	—	—	(10,500)	(10,500)
At 30 June 2012 (unaudited)		<u>98,499</u>	<u>14,026</u>	<u>124,593</u>	<u>237,118</u>

27. NOTE TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

Major non-cash transactions

During the year ended 31 December 2012, the Group had transferred deposits for purchase of property, plant and equipment of RMB1,403,000 to property, plant and equipment.

28. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group and the Company subleases certain of its lease shops under operating lease arrangements with leases negotiated for terms ranging from one to five years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At the end of each of the reporting periods, the Group and the Company had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group and Company			
	As at 31 December			As at 30 June
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Within one year	276	300	309	215
In the second to fifth years, inclusive	751	486	235	168
After five years	—	—	—	—
	<u>1,027</u>	<u>786</u>	<u>544</u>	<u>383</u>

(b) As lessee

The Group and the Company leases certain of its shops, counters, and warehouses under operating lease arrangements with leases negotiated for terms ranging from one to ten years.

At the end of each of the reporting periods, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group			
	As at 31 December			As at 30 June
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Within one year	9,218	12,423	14,202	8,405
In the second to fifth years, inclusive	18,910	19,961	17,444	14,405
After five years	1,200	192	163	316
	<u>29,328</u>	<u>32,576</u>	<u>31,809</u>	<u>23,126</u>

	Company			
	As at 31 December			As at 30 June
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Within one year	9,218	10,375	11,351	7,056
In the second to fifth years, inclusive	18,910	19,388	17,162	14,364
After five years	1,200	192	163	316
	<u>29,328</u>	<u>29,955</u>	<u>28,676</u>	<u>21,736</u>

29. COMMITMENTS

In addition to the operating lease commitments detailed in note 28 above, the Group and the Company had the following commitments at the end of each of the reporting periods:

	Group			
	As at 31 December			As at
	2010	2011	2012	30 June
	RMB'000	RMB'000	RMB'000	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Contracted, but not provided for:				
— Land and buildings	18,062	8,403	—	223,370
— Plant and equipment	873	4,781	10	497
Authorised, but not contracted for:				
— Land and buildings	23,443	8,010	320,000	71,850
	<u>42,378</u>	<u>21,194</u>	<u>320,010</u>	<u>295,717</u>
	Company			
	As at 31 December			As at
	2010	2011	2012	30 June
	RMB'000	RMB'000	RMB'000	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Contracted for commitments in respect of:				
— Land and buildings	18,062	8,403	—	—
— Plant and equipment	873	4,781	10	497
Authorised, but not contracted for:				
— Land and buildings	23,443	8,010	—	—
	<u>42,378</u>	<u>21,194</u>	<u>10</u>	<u>497</u>

30. RELATED PARTY TRANSACTIONS

- (a) As detailed in note 24 above, the banking facilities were supported by personal guarantees provided by Mr. Ding Hui, the director of the Company, and his wife, and Mr. Ding Canyang, the director of the Company, and his wife, to the extent of RMB104 million, RMB164 million, RMB295 million and RMB265 million as at 31 December 2010, 2011 and 2012 and 30 June 2013, respectively.
- (b) During the year ended 31 December 2010, Mr. Ding Hui and Mr. Ding Canyang had transferred certain trademarks registered under their names to the Group at nil consideration on 20 March 2010 and 9 August 2010, respectively.
- (c) During the year ended 31 December 2012, 泉州市諾奇投資發展有限公司, one of the shareholders of the Company, had transferred certain software intellectual property rights registered under its name to the Group at nil consideration on 28 May 2012.
- (d) Pursuant to the undertakings dated 20 December 2013, Mr. Ding Hui and Mr. Ding Canyang agreed to bear certain listing expenses amounting to RMB1,980,000 in the relation to the Company's A-Share listing applications to the China Securities Regulatory Commission.

31. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of each of the reporting periods are as follows:

Financial assets

	Group			
	As at 31 December			As at
	2010	2011	2012	30 June
	RMB'000	RMB'000	RMB'000	2013
	RMB'000	RMB'000	RMB'000	RMB'000
<i>Loans and receivables</i>				
Trade receivables	35,381	55,552	70,966	77,310
Financial assets included in prepayments, deposits and other receivables	2,398	6,676	4,880	8,176
Pledged deposits	2,664	578	500	—
Cash and cash equivalents	79,904	181,618	198,136	270,426
	<u>120,347</u>	<u>244,424</u>	<u>274,482</u>	<u>355,912</u>

Financial liabilities

	Group			
	As at 31 December			As at
	2010	2011	2012	30 June
	RMB'000	RMB'000	RMB'000	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Trade and bills payables	23,830	21,668	14,245	8,580
Financial liabilities included in other payables, accruals and other liabilities	5,345	4,590	10,845	13,299
Interest-bearing bank borrowings	57,285	72,386	154,824	181,415
	<u>86,460</u>	<u>98,644</u>	<u>179,914</u>	<u>203,294</u>

Financial assets

	Company			
	As at 31 December			As at
	2010	2011	2012	30 June
	RMB'000	RMB'000	RMB'000	2013
	RMB'000	RMB'000	RMB'000	RMB'000
<i>Loans and receivables</i>				
Trade receivables	35,381	18,668	18,852	3,208
Amount due from a subsidiary	—	3,178	4,230	7,470
Financial assets included in prepayments, deposits and other receivables	2,398	5,285	3,488	7,220
Pledged deposits	2,664	578	500	—
Cash and cash equivalents	79,904	181,175	198,101	265,449
	<u>120,347</u>	<u>208,884</u>	<u>225,171</u>	<u>283,347</u>

Financial liabilities

	Company			
	As at 31 December			As at 30 June
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Trade and bills payables	23,830	21,668	14,245	8,580
Financial liabilities included in other payables, accruals and other liabilities	5,345	3,656	6,126	10,437
Interest-bearing bank borrowings	57,285	72,386	154,824	181,415
	<u>86,460</u>	<u>97,710</u>	<u>175,195</u>	<u>200,432</u>

32. TRANSFERRED FINANCIAL ASSETS**(i) Transferred financial assets that are not derecognised in their entirety**

As part of its normal business, the Group entered into a trade receivables factoring arrangement (the "Factoring Arrangement") and transferred certain of its trade receivables to a bank in the Mainland China. The Group is exposed to default risks of the trade receivables after the transfer. Subsequent to the transfer, the Group does not retain any rights on the use of the trade receivables, including sale, transfer or pledge of the trade receivables to any other third parties. The original carrying value of the trade receivables transferred under the Factoring Arrangement that have not been settled as at 31 December 2011 amounted to approximately RMB9,673,000.

(ii) Transferred financial assets that are derecognised in their entirety

At 31 December 2011 and 2012 and 30 June 2013, the Group discounted certain bank and commercial bills receivable with a carrying amount in aggregate of approximately RMB75.8 million, RMB49.8 million and RMB17.7 million to a bank in the Mainland China (the "Derecognised Bills") for cash. The Derecognised Bills had a remaining maturity from ten days to six months at 31 December 2011 and 2012 and 30 June 2013. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Bills have a right of recourse against the Group if the PRC bank and/or the issuers of commercial bills receivable default (the "Continuing Involvement"). In the opinion of the directors, the Group has transferred substantially all risks and rewards relating to the Derecognised Bills. Accordingly, it has derecognised the full amounts of the Derecognised Bills. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills equal to their full amounts. In the opinion of the directors, the fair value of the Group's Continuing Involvement in the Derecognised Bills is not significant.

During the years ended 31 December 2011 and 2012 and six months ended 30 June 2013, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Bills. No gains or losses were recognised from the Continuing Involvement, both during the year/period or cumulatively.

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash and cash equivalents and interest-bearing bank borrowings. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables, other receivables, trade and bills payables, other payables and accruals, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, credit risk and liquidity risk. The Group does not have any written risk management policies and guidelines. Generally, the Group introduces conservative strategies on its risk management. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below:

Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group is exposed to both fair value and cash flow interest rate risks. The Group's exposure to market risk for changes in interest rates relates primarily to the Group's bank borrowings with a floating interest rate.

At present, the Group does not intend to seek to hedge its exposure to interest rate fluctuations. However, the Group will constantly review the economic situation and its interest rate risk profile, and will consider appropriate hedging measures in future as may be necessary.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates with all other variables held constant, of the Group's and the Company's profit before tax (through the impact on floating rate borrowings).

	Group and Company				
	Year ended 31 December			Six months ended 30 June	
	2010	2011	2012	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Increase in basis points	100	100	100	100	100
Decrease in profit before tax	—	120	—	—	—
Decrease in basis points	(100)	(100)	(100)	(100)	(100)
Increase in profit before tax	—	120	—	—	—

Credit risk

The Group trades only with recognised and creditworthy customers. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Company's and the Group's other financial assets, which comprise cash and cash equivalents and other receivables arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Further quantitative data in respect of the Company's and the Group's exposure to credit risk arising from trade receivables are disclosed in note 19 to the Financial Information.

Liquidity risk

The Group aims at maintaining a balance between continuity of funding and flexibility through maintaining sufficient cash and cash equivalents. The directors have reviewed the Group's working capital and capital expenditure requirements and determined that the Group has no significant liquidity risk.

The maturity profile of the Group's financial liabilities as at the end of each of the reporting periods, based on the contractual undiscounted payments, was as follows:

	Group		
	On demand and less than		
	1 year	Over 1 year	Total
	RMB'000	RMB'000	RMB'000
31 December 2010			
Trade and bills payables	23,830	—	23,830
Financial liabilities included in other payables, accruals and other liabilities	5,345	—	5,345
Interest-bearing bank-borrowings	33,020	28,658	61,678
	<u>62,195</u>	<u>28,658</u>	<u>90,853</u>
31 December 2011			
Trade and bills payables	21,668	—	21,668
Financial liabilities included in other payables, accruals and other liabilities	4,590	—	4,590
Interest-bearing bank-borrowings	63,009	12,250	75,259
	<u>89,267</u>	<u>12,250</u>	<u>101,517</u>
31 December 2012			
Trade and bills payables	14,245	—	14,245
Financial liabilities included in other payables, accruals and other liabilities	10,845	—	10,845
Interest-bearing bank-borrowings	160,808	—	160,808
	<u>185,898</u>	<u>—</u>	<u>185,898</u>
30 June 2013			
Trade and bills payables	8,580	—	8,580
Financial liabilities included in other payables, accruals and other liabilities	13,299	—	13,299
Interest-bearing bank-borrowings	186,192	—	186,192
	<u>208,071</u>	<u>—</u>	<u>208,071</u>

	Company		
	On demand and less than		Total
	1 year	Over 1 year	
	RMB'000	RMB'000	RMB'000
31 December 2010			
Trade and bills payables	23,830	—	23,830
Financial liabilities included in other payables, accruals and other liabilities	5,345	—	5,345
Interest-bearing bank-borrowings	33,020	28,658	61,678
	<u>62,195</u>	<u>28,658</u>	<u>90,853</u>
31 December 2011			
Trade and bills payables	21,668	—	21,668
Financial liabilities included in other payables, accruals and other liabilities	3,656	—	3,656
Interest-bearing bank-borrowings	63,009	12,250	75,259
	<u>88,333</u>	<u>12,250</u>	<u>100,583</u>
31 December 2012			
Trade and bills payables	14,245	—	14,245
Financial liabilities included in other payables, accruals and other liabilities	6,126	—	6,126
Interest-bearing bank-borrowings	160,808	—	160,808
	<u>181,179</u>	<u>—</u>	<u>181,179</u>
30 June 2013			
Trade and bills payables	8,580	—	8,580
Financial liabilities included in other payables, accruals and other liabilities	10,437	—	10,437
Interest-bearing bank-borrowings	186,192	—	186,192
	<u>205,209</u>	<u>—</u>	<u>205,209</u>

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value. No change was made in the objectives, policies or processes for managing capital during the years ended 31 December 2010, 2011 and 2012 and six months ended 30 June 2013.

The capital structure of the Group consists of net debt which includes bank borrowings and equity attributable to the owners of the Company. Equity attributable to the owners of the Company comprises issued share capital, reserves and retained profits as disclosed in the consolidated statements of changes in equity.

The Group monitors capital using a gearing ratio, which is total bank borrowings divided by the equity attributable to owners of the Company. The gearing ratios as at the end of each of the reporting periods were as follows:

	Group			
	As at 31 December			As at
	2010	2011	2012	30 June
	RMB'000	RMB'000	RMB'000	2013
Interest-bearing bank borrowings	57,285	72,386	154,824	181,415
Equity attributable to the owners of the Company . . .	165,333	329,691	400,889	447,595
Gearing ratio	34.6%	22.0%	38.6%	40.5%

34. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to 30 June 2013.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

The information set out in this appendix does not form part of the Accountants' Report on the financial information of the Group for the Track Record Period prepared by Ernst & Young, Certified Public Accountants, Hong Kong, the reporting accountants of our Company, as set out in Appendix I to this prospectus, and is included in this prospectus for information only.

The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this prospectus and the "Accountants' Report" set out in Appendix I to this prospectus.

A. UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma adjusted net tangible assets prepared in accordance with Rule 4.29 of the Listing Rules is for illustration purpose only, and is set out in this appendix to illustrate the effect of the Global Offering on the adjusted consolidated net tangible assets of the Group as at 30 June 2013, as if they had taken place on such date.

The unaudited pro forma adjusted net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group following the Global Offering. It is prepared based on the audited consolidated net assets of the Group as at 30 June 2013 as shown in the Accountants' Report set out in Appendix I to this prospectus and adjusted as described below. The unaudited pro forma adjusted net tangible assets does not form part of the Accountants' Report.

	Audited consolidated net tangible assets of the Group as at 30 June 2013	Estimated net proceeds from the Global Offering	Unaudited pro forma adjusted net tangible assets of our Group	Unaudited pro forma adjusted net tangible assets per Share	
	RMB'000	RMB'000	RMB'000	RMB	HK\$
Based on the Offer Price of HK\$2.03 per H Share.	447,595	204,600	652,195	1.09	1.38
Based on the Offer Price of HK\$2.88 per H Share.	447,595	301,503	749,098	1.25	1.58

B. UNAUDITED PRO FORMA FORECAST EARNINGS PER SHARE

The following unaudited pro forma forecast earnings per Share for the year ending 31 December 2013 has been prepared in accordance with Rule 4.29 of the Listing Rules on the basis set out in the notes below for the purpose of illustrating the effect of the Global Offering, as if it had taken place on 1 January 2013. The unaudited pro forma forecast earnings per Share has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the financial results of the Group following the Global Offering.

Forecast consolidated profit for the year ending	
31 December 2013 ⁽¹⁾⁽³⁾	RMB80.2 million
	(Approximately HK\$101.6 million)
Unaudited pro forma forecast earnings per Share ⁽²⁾⁽³⁾	RMB0.13
	(Approximately HK\$0.17)

Notes:

- (1) The bases and assumptions on which the above profit forecast for the year ending 31 December 2013 has been prepared are summarised in Appendix III to this prospectus.
- (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 the owners of the Company, assuming that a total of 600,000,000 Shares had been 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 the owners of the Company and the unaudited pro forma forecast earnings per Share are converted into Hong Kong Dollars at the exchange rate of RMB0.7892 to HK\$1.00, the PBOC rate on 20 December 2013.

C. REPORT FROM THE REPORTING ACCOUNTANTS ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of report, prepared for the purpose of incorporation in this prospectus, received from Ernst & Young, Certified Public Accountants, Hong Kong, the reporting accountants of our Company.



22/F CITIC Tower,
1 Tim Mei Avenue,
Central, Hong Kong

30 December 2013

INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION INCLUDED IN A PROSPECTUS

To the Directors of Fujian Nuoqi Co., Ltd.

We have completed our assurance engagement to report on the compilation of pro forma financial information of Fujian Nuoqi Co., Ltd. (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The pro forma financial information consists of the pro forma consolidated net tangible assets as at 30 June 2013 and the pro forma forecast earnings per share for the year ended 31 December 2013 and related notes as set out in Appendix II of the Prospectus issued by the Company (the "Pro Forma Financial Information"). The applicable criteria on the basis of which the Directors have compiled the Pro Forma Financial Information are described in Appendix II of the Prospectus.

The Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the proposed global offering of shares of the Company on the Group's financial position as at 30 June 2013 and the Group's forecast earnings per share for the year ending 31 December 2013 as if the transaction had taken place at 30 June 2013 and 1 January 2013, respectively. As part of this process, information about the Group's financial position and forecast profit has been extracted by the Directors from the Group's financial statements for the six months period ended 30 June 2013 on which an accountants' report has been published, and the Group's profit forecast for the six months period ending 31 December 2013, respectively.

Directors' responsibility for the Pro Forma Financial Information

The Directors are responsible for compiling the Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "*Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars*" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

Reporting Accountants' responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "*Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*" issued by the HKICPA. This standard requires that the reporting accountants comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the Pro Forma Financial Information, in accordance with paragraph 4.29 of the Listing Rules and with reference to Accounting Guideline 7 "*Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars*" issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Pro Forma Financial Information.

The purpose of Pro Forma Financial Information included in the Prospectus is solely to illustrate the impact of the global offering of shares of the Company on unadjusted financial information of the Group as if the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the transaction would have been as presented.

A reasonable assurance engagement to report on whether the Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgement, having regard to the reporting accountants' understanding of the nature of the Group, the transaction in respect of which the Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Pro Forma Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

- (a) the Pro Forma Financial Information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purpose of the Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Ernst & Young

Certified Public Accountants

Hong Kong

30 December 2013

Our forecast of the consolidated profit for the year ending 31 December 2013 is set out in the section headed “Financial Information — Profit Forecast for the year ending 31 December 2013” in this prospectus.

A. PROFIT FORECAST FOR THE YEAR ENDING 31 DECEMBER 2013

We have prepared our profit forecast for the year ending 31 December 2013. This profit forecast is based on the audited consolidated financial information for the six months ended 30 June 2013, the unaudited management accounts for the four months ended 31 October 2013 and our forecast of the consolidated results for the remaining two months ending 31 December 2013. The forecast for the year ending 31 December 2013 has been prepared on the basis of accounting policies consistent with those adopted for the purpose of the Accountants’ Report set out in Appendix I to this prospectus and the principal assumptions set out below.

Principal Assumptions for the Profit Forecast

The principal assumptions adopted by the Directors of the Company in preparing the profit forecast are as follows:

- There will be no material changes in the existing government policies or political, legal, fiscal, market or economic conditions in the PRC, including but not limited to legislation, rules or regulations.
- There will be no material changes in interest rates, exchange rates and inflation rates from those presently prevailing on 30 June 2013.
- The Group is not materially and adversely affected by any of the risk factors set out in the section headed “Risk Factors” of our Prospectus.
- The Group will be able to continually obtain adequate finance for its business and to operate as going concern in the foreseeable future.
- The Group’s operations and business will not be materially affected or interrupted by any force majeure events or unforeseeable factors or any unforeseeable reasons that are beyond the control of the Directors, including but not limited to the occurrence of natural disasters, supply failure, labour dispute, significant lawsuit and arbitration.
- The Profit and Working Capital Forecasts have been prepared taking into account the continued involvement of the Directors, senior management and other necessary talents in the development of the Group’s operations. It is assumed that the Group will be able to retain its key management and personnel during the Forecast Period.

Profit forecast for the Year Ending 31 December 2013

Forecast consolidated profit⁽¹⁾⁽³⁾ RMB80.2 million
(Approximately HK\$101.6)

Unaudited pro forma forecast earnings per Share⁽²⁾⁽³⁾ RMB0.13
(Approximately HK\$0.17)

Notes:

- (1) Our Directors have prepared the forecast consolidated profit attributable to the owners of the Company for the year ending 31 December 2013 based on our audited consolidated results for the six months ended 30 June 2013, our unaudited management accounts for the four months ended 31 October 2013 and the forecast consolidated results for the remaining two 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 the owners of the Company, assuming that a total of 600,000,000 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 the owners of the Company and the unaudited pro forma forecast earnings per Share are converted into Hong Kong Dollars at the exchange rate of RMB0.7892 to HK\$1.00, the PBOC rate on 20 December 2013.

B. LETTER FROM THE REPORTING ACCOUNTANTS

The following is the text of a letter received from Ernst & Young, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.



22/F CITIC Tower,
1 Tim Mei Avenue,
Central, Hong Kong

30 December 2013

The Directors
Fujian Nuoqi Co., Ltd.
CCB International Capital Limited

Dear Sirs,

We have reviewed the calculations of and the accounting policies adopted in arriving at the forecast of the consolidated profit attributable to the owners of Fujian Nuoqi Co., Ltd. (the “Company”, together with its subsidiaries, hereinafter collectively referred to as the “Group”) for the year ending 31 December 2013 (the “Profit Forecast”) as set out on Part A of Appendix III in the prospectus of the Company dated 30 December 2013 (the “Prospectus”) for which the directors of the Company (the “Directors”) are solely responsible.

We conducted our work with reference to Auditing Guideline 3.341 “*Accountants’ Report on Profit Forecasts*” issued by the Hong Kong Institute of Certified Public Accountants.

The Profit Forecast has been prepared by the Directors based on the audited consolidated results of the Group for the six months ended 30 June 2013, the unaudited consolidated results of the Group for the four months ended 31 October 2013 and a forecast of the consolidated results of the Group for the remaining two months ending 31 December 2013.

In our opinion, so far as the accounting policies and calculations are concerned, the Profit Forecast has been properly compiled in accordance with the bases and assumptions made by the Directors as set out in Appendix III to the Prospectus, and is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group as set out in our accountants’ report dated 30 December 2013, the text of which is set out in Appendix I to the Prospectus.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

C. LETTER FROM THE SOLE SPONSOR

The following is the text of a letter, prepared for inclusion in this prospectus, received by our Directors from the Sole Sponsor, in connection with the forecast of our consolidated profit for the year ending 31 December 2013.



30 December 2013

The Directors
Fujian Nuoqi Co., Ltd.

Dear Sirs,

We refer to the forecast of the consolidated profit of Fujian Nuoqi Co., Ltd. (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) for the year ending 31 December 2013 (the “Profit Forecast”), as set out in the prospectus dated 30 December 2013 issued by the Company (the “Prospectus”).

The Profit Forecast, for which the Directors are solely responsible, has been prepared by the Directors based on the results shown in the audited consolidated financial information of the Group for the six months ended 30 June 2013, the unaudited management accounts of the Group for the four months ended 31 October 2013, and a forecast of the results of the remaining two months of the year ending 31 December 2013.

We have discussed with you the bases and assumptions upon which the Profit Forecast has been made. We have also considered the letter dated 30 December 2013 addressed to you and us from Ernst & Young, Certified Public Accountants, Hong Kong, regarding the accounting policies and calculations upon which the Profit Forecast has been made.

On the basis of the foregoing and on the bases and assumptions made by you and the accounting policies and calculations adopted by you and reviewed by Ernst & Young, Certified Public Accountants, Hong Kong, we have formed the opinion that the Profit Forecast, for which you as Directors are solely responsible, has been made after due and careful enquiry.

Yours faithfully
For and on behalf of
CCB International Capital Limited
Lai Voon Wai
Managing Director, Corporate Finance

The following is the text of a letter, summary of values and valuation certificates, prepared for the purpose of incorporation in this prospectus received from Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent valuer, in connection with its valuation as at 31 October 2013 of the properties held by the Group.



Jones Lang LaSalle Corporate Appraisal and Advisory Limited
6/F Three Pacific Place 1 Queen's Road East Hong Kong
tel +852 2846 5000 fax +852 2169 6001
Licence No: C-030171

30 December 2013

The Board of Directors
Fujian Nuoqi Co., Ltd.
No. 98 Chonghong Road
Economic and Technical Development Zone
Quanzhou City, Fujian Province
The PRC

Dear Sirs,

In accordance with your instructions to value the properties held by Fujian Nuoqi Co., Ltd. (the "Company") and its subsidiaries (hereinafter together referred to as the "Group") in the People's Republic of China (the "PRC"), we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the capital values of the property interests as at 31 October 2013 (the "valuation date").

Our valuation is carried out on a market value basis. Market value is defined as "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

Where, due to the nature of the buildings and structures of property no. 1 and the particular location in which they are situated, there are unlikely to be relevant market comparable sales readily available. The property interests have therefore been valued by cost approach with reference to their depreciated replacement cost.

Depreciated replacement cost is defined as "the current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and all relevant forms of obsolescence and optimisation." It is based on an estimate of the market value for the existing use of the land, plus the current cost of replacement (reproduction) of the improvements, less deductions for physical deterioration and all relevant forms of obsolescence and optimisation. In arriving at the value of land portion, reference has been made to the sales evidence as available in the locality. The depreciated replacement cost of the property interest is subject to adequate potential profitability of the concerned business. In our valuation, it applies to the whole of the complex or development as a unique interest, and no piecemeal transaction of the complex or development is assumed.

We have valued the property no. 2 by direct comparison approach assuming sale of the property interest in its existing state with the benefit of immediate vacant possession and by making reference to comparable sales transactions as available in the relevant market. Appropriate adjustments and analysis are considered to the differences in location, size and other characters between the comparable properties and the subject property.

Our valuation has been made on the assumption that the seller sells the property interests in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the values of the property interests.

No allowance has been made in our report for any charge, mortgage or amount owing on any of the property interests valued nor for any expense or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values.

In valuing the property interests, we have complied with all requirements contained in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited; the RICS Valuation — Professional Standards published by the Royal Institution of Chartered Surveyors; the HKIS Valuation Standards published by the Hong Kong Institute of Surveyors; and the International Valuation Standards published by the International Valuation Standards Council.

We have relied to a very considerable extent on the information given by the Group and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, lettings, and other relevant matters.

We have been shown copies of various title documents including State-owned Land Use Rights Certificate, Real Estate Title Certificate and official plans relating to the property interests and have made relevant enquiries. Where possible, we have examined the original documents to verify the existing title to the property interests in the PRC and any material encumbrance that might be attached to the property interests or any tenancy amendment. We have relied considerably on the advice given by the Company's PRC legal adviser — Fujian Junli Law Firm, concerning the validity of the property interests in the PRC.

We have not carried out detailed measurements to verify the correctness of the areas in respect of the properties but have assumed that the areas shown on the title documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

We have inspected the properties. However, we have not carried out investigation to determine the suitability of the ground conditions and services for any development thereon. Our valuation has been prepared on the assumption that these aspects are satisfactory. Moreover, no structural survey has been made, but, in the course of our inspection, we did not note any serious defect. We are not, however, able to report whether the properties are free of rot, infestation or any other structural defect. No tests were carried out on any of the services.

Inspection of the properties was carried out in May 2013 by Mr. Sifan Liu. Mr. Sifan Liu has 5 years' experience in valuation of properties in the PRC.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We have also sought confirmation from the Company that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to arrive an informed view, and we have no reason to suspect that any material information has been withheld.

Unless otherwise stated, all monetary figures stated in this report are in Renminbi (RMB).

Our valuation is summarised below and the valuation certificates are attached.

Yours faithfully,
for and on behalf of
Jones Lang LaSalle Corporate Appraisal and Advisory Limited
Eddie T. W. Yiu
MRICS MHKIS RPS (GP)
Director

Note: Eddie T.W. Yiu is a Chartered Surveyor who has 19 years' experience in the valuation of properties in Hong Kong and the PRC as well as relevant experience in the Asia-Pacific region.

SUMMARY OF VALUES

Group I — Property interest held and occupied by the Group in the PRC

<u>No.</u>	<u>Property</u>	<u>Capital value in existing state as at 31 October 2013</u>	<u>Interest attributable to the Group</u>	<u>Capital value attributable to the Group as at 31 October 2013</u>
		<i>RMB</i>		<i>RMB</i>
1.	A parcel of land, 3 buildings and various structures located at No. 55 Chongwen Road Qingmeng Economic Development Zone Quanzhou City Fujian Province The PRC	17,688,000	100.0%	17,688,000
	Sub-total:	<u>17,688,000</u>		<u>17,688,000</u>

Group II — Property interest held for future development by the Group in the PRC

<u>No.</u>	<u>Property</u>	<u>Capital value in existing state as at 31 October 2013</u>	<u>Interest attributable to the Group</u>	<u>Capital value attributable to the Group as at 31 October 2013</u>
		<i>RMB</i>		<i>RMB</i>
2.	A parcel of vacant land located at the northern side of Mao He Jing and the southern side of Songze Avenue Jiayi Village Chonggu Town Qingpu District Shanghai The PRC	37,636,000	100.0%	37,636,000
	Sub-total:	<u>37,636,000</u>		<u>37,636,000</u>
	Grand total:	<u><u>55,324,000</u></u>		<u><u>55,324,000</u></u>

VALUATION CERTIFICATE

Group I — Property interest held and occupied by the Group in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 October 2013 <i>RMB</i>
1.	A parcel of land, 3 buildings and various structures located at No. 55 Chongwen Road Qingmeng Economic Development Zone Quanzhou City Fujian Province The PRC	<p>The property comprises a parcel of land with a site area of approximately 23,104.1 sq.m. and 3 buildings and various ancillary structures erected thereon which were completed in 2012.</p> <p>The buildings have a total gross floor area of approximately 26,256.99 sq.m.</p> <p>The buildings include 2 office buildings and a composite building.</p> <p>The structures mainly include boundary walls, carports and roads.</p> <p>The land use rights of the property have been granted for a term expiring on 26 October 2060 for industrial use.</p>	The property is currently occupied by the Group for office, warehouse and ancillary purposes.	<p>17,688,000</p> <p>100% interest attributable to the Group: RMB17,688,000</p>

Notes:

- Pursuant to a State-owned Land Use Rights Grant Contract dated 26 October 2010, entered into between State-owned Land Resources Bureau of Quanzhou City, Fujian Province and the Company, the land use rights of the property were contracted to be granted to the Company for a term of 50 years for industrial use. The land premium was RMB12,350,000.
- Pursuant to a State-owned Land Use Rights Certificate — Quan Guo Yong (2011) Di No. 00029 (泉國用(2011)第00029號), the land use rights of a parcel of land with a site area of approximately 23,104.1 sq.m. have been granted to the Company for a term expiring on 26 October 2060 for industrial use.
- Pursuant to a Construction Work Planning Permit — Jian Zi Di No. 350500201230003 (建字第350500201230003) in favour of the Company, 3 buildings with a total planned gross floor area of approximately 26,256.99 sq.m. have been approved for construction.
- Pursuant to a Construction Work Commencement Permit in favour of the Company, permission by the relevant local authority is given to commence the construction work of the buildings of the property.
- Pursuant to an Other Rights Certificate — Quan Ta Xiang (2013) Di No. 97, the land use rights of the property (under State-owned Land Use Rights Certificate — Quan Guo Yong (2011) Di No. 00029) are subject to mortgage as securities in favour of Bank of China Limited Quanzhou Branch for bank loan at the maximum amount of RMB15,715,900 with a mortgage term from 18 April 2013 to 11 April 2015.
- In the valuation of this property, we have attributed no commercial value to 3 buildings with a total gross floor area of approximately 26,256.99 sq.m. which have not obtained Building Ownership Certificates. However, for reference purpose, we are of the opinion that the depreciated replacement cost of these buildings (excluding the land) as at the valuation date would be RMB75,041,000 assuming all relevant title certificates had been obtained and the buildings could be freely transferred.

7. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal adviser, which contains, inter alia, the following:
- (a) The Company has obtained the land use rights certificate by way of land granting and the land premium has been fully paid. The Company legally owns the land use rights of the property;
 - (b) The land of the property has been mortgaged;
 - (c) Save for the above-mentioned mortgage, the Company is entitled to occupy, use, receive benefit from, transfer or otherwise dispose of the land use rights of the property; and
 - (d) The Company has completed the relevant procedures of construction completion and acceptance for the buildings of the property and there is no material legal impediment for the Company in obtaining the Building Ownership Certificates. The Company can legally use the buildings of the property.
8. As the property is the major asset held by the Group, we are of the view that the property is a material property.

Details of the material property

- (a) General description of location of the property : The property is located at the intersection of Chongwen Road and Chonghong Avenue in Qingmeng Economic Development Zone which is at the southern part of Quanzhou City. The site of the property is in irregular shape and the neighbourhood is mainly farmland.

It is accessible to S124 Highway and Jiang Xin Qiao Line within the locality connecting the property to the downtown area of Quanzhou City.
- (b) Details of encumbrances, liens, pledges, mortgages against the property : A parcel of land (under the Land Use Rights Certificate — Quan Guo Yong (2011) Di No. 00029) are subject to mortgage as securities in favour of Bank of China Limited Quanzhou Branch for bank loan at the maximum amount of RMB15,715,900 with a mortgage term from 18 April 2013 to 11 April 2015.
- (c) Environmental Issue : No environmental study has been carried out.
- (d) Details of investigations, notices, pending litigation, breaches of law or title defects : 3 buildings with a total gross floor area of approximately 26,256.99 sq.m. have not obtained building ownership certificates.
- (e) Future plans for construction, renovation, improvement or development of the property and estimated associated costs : As advised by the Group, there is no plan for new major development or renovation in the next 12 months from the date of this document.

VALUATION CERTIFICATE

Group II — Property interest held for future development by the Group in the PRC

<u>No.</u>	<u>Property</u>	<u>Description and tenure</u>	<u>Particulars of occupancy</u>	<u>Capital value in existing state as at 31 October 2013</u> <i>RMB</i>
2.	A parcel of vacant land located at the northern side of Mao He Jing and the southern side of Songze Avenue Jiayi Village Chonggu Town Qingpu District Shanghai The PRC	<p>The property comprises a parcel of land with a site area of approximately 40,512 sq.m.</p> <p>A product center is planned to be constructed.</p> <p>As advised by the Group, the development is scheduled to be commenced no later than May 2014. Upon completion, the development will have a total gross floor area of approximately 134,043 sq.m. The total investment of the development is estimated to be RMB220,000,000.</p> <p>The land use rights of the property have been granted for a term expiring on 12 May 2062 for industrial use.</p>	The property is currently vacant.	<p>37,636,000</p> <p>100.0% interest attributable to the Group:</p> <p>RMB37,636,000</p>

Notes:

1. Pursuant to a State-owned Land Use Rights Grant Contract dated 8 March 2012, entered into between Shanghai Qingpu District Planning, Land & Resources Administration Bureau and Shanghai Nuoqi Apparel Co., Ltd. ("Shanghai Nuoqi", a wholly-owned subsidiary of the Company), the land use rights of the property were contracted to be granted to Shanghai Nuoqi for a term of 50 years for industrial use. The land premium was RMB36,460,000.
2. Pursuant to a Real Estate Title Certificate — Hu Fang Di Qing Zi (2012) Di No. 006348 (滬房地青字(2012)第006348號), the land use rights of a parcel of land with a site area of approximately 40,512 sq.m. have been granted to Shanghai Nuoqi for a term expiring on 12 May 2062 for industrial use.
3. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal adviser, which contains, inter alia, the following:
 - (a) Shanghai Nuoqi has obtained the land use rights certificate by way of land granting and the land premium has been fully paid. Shanghai Nuoqi legally owns the land use rights of the property; and
 - (b) Shanghai Nuoqi is entitled to occupy, use, receive benefit from, transfer or otherwise dispose of the land use rights of the property.

4. As the property is the major asset held by the Group, we are of the view that the property is a material property.

Details of the material property

- (a) General description of location of the property : The property is located at the intersection of Songying Road and Songze Avenue and near Datian, in Qingpu District which is at the western part of Shanghai. The site of the property is in irregular shape and the neighbourhood is mainly farmland.
- It is accessible to Songze Avenue within the locality connecting the property to the downtown area of Shanghai.
- (b) Details of encumbrances, liens, pledges, mortgages against the property : Nil.
- (c) Environmental Issue : No environmental study has been carried out.
- (d) Details of investigations, notices, pending litigation, breaches of law or title defects : Nil.
- (e) Future plans for construction, renovation, improvement or development of the property and estimated associated costs : As advised by the Group, a product center is planned to be constructed on the property. The development is scheduled to be commenced no later than May 2014. Upon completion, the development will have a total gross floor area of approximately 134,043 sq.m. The total investment of the development is estimated to be RMB220,000,000.

TAXATION**Taxation in the PRC***Taxes Applicable to the Company**Enterprise Income Tax*

In accordance with the *Enterprise Income Tax Law of the People's Republic of China* ("EIT Law") (《中華人民共和國企業所得稅法》) promulgated on 16 March 2007 and the *Regulations for the Implementation of the Enterprise Income Tax Law* (《企業所得稅法實施條例》) promulgated on 6 December 2007, domestic enterprises and foreign-invested enterprises are subject to enterprise income tax at a uniform rate of 25%. In accordance with pertinent taxation laws and administrative regulations, the EIT Law and its implementation regulations provides for a five-year transition period in respect of enterprises incorporated prior to 16 March 2007 and entitled to concessions in enterprise income tax, so that the applicable tax rates for such enterprises would gradually be standardised at 25%. Enterprises entitled to fixed tax holiday or fixed tax reduction/exemption may continue to enjoy such concessions in the same manner as stipulated by the State Council until the conclusion of the tax holiday or the concession period. For enterprises who have not benefited from such concession due to the absence of profit, the concession period started from the effective date of the EIT Law, namely, 1 January 2008.

Business Tax

According to the *Provisional Regulations of The People's Republic of China on Business Tax* (《中華人民共和國營業稅暫行條例》) which was amended on 5 November 2008 and with effect from 1 January 2009 and the *Detailed Rules for Implementation of the Provisional Regulations of The People's Republic of China on Business Tax* (《中華人民共和國營業稅暫行條例實施細則》), which was amended on 28 October 2011 and with effect from 1 January 2009, taxpayers providing taxable services in the PRC are generally subject to a 5% business tax unless otherwise provided for. For entities or individuals who provide taxable labour services, transferring intangible assets or selling real estate in the PRC without a domestic business establishment, business taxes shall be withheld and paid by their domestic agents on their behalf. For entities or individuals who have not appointed any domestic agents, business taxes shall be withheld and paid by the transferees or buyers on their behalf.

Value-added Tax (VAT)

According to the *Provisional Regulations of the People's Republic of China on Value-added Tax* (《中華人民共和國增值稅暫行條例》) amended on 5 November 2008 and the *Detailed Rules for Implementation of the Provisional Regulations of the People's Republic of China on Value-added Tax* (《中華人民共和國增值稅暫行條例實施細則》) amended on 28 October 2011, all taxpayers selling goods or providing processing, repairing or replacement services and import of goods within the PRC shall pay VAT. The tax rate of 17% shall be levied on general taxpayers selling or importing various goods unless otherwise provided for. The rate applicable the export of goods by taxpayers shall be nil, unless otherwise stipulated.

Furthermore, pursuant to the *Pilot Scheme for the Conversion of Business Tax to VAT* (《營業稅改徵增值稅試點方案》) promulgated by the Ministry of Finance and the State Administration of Taxation (SAT), the State started to introduce taxation reforms in a gradual manner with effect from 1 January

2012, whereby the collection of VAT in lieu of business tax items was implemented on a trial basis in regions showing significant radiating effects in economic development and providing strong cases as examples of reform, beginning with production service industries such as transportation and certain modern service industries.

Stamp duty

According to the *Provisional Regulations of the People's Republic of China on Stamp Duty* (《中華人民共和國印花稅暫行條例》) enacted on 6 August 1988 and summarily revised on 8 January 2011 and the *Detailed Rules for Implementation of the Provisional Regulations of the People's Republic of China on Stamp Tax* (《中華人民共和國印花稅暫行條例施行細則》) enacted on 29 September 1988, all entities and individuals executing or receiving taxable documents within the PRC shall pay stamp duty. The list of taxable documents includes purchase and sale contracts, processing contracts, construction project contracts, property lease contracts, cargo freight contracts, warehousing and storage contracts, loan contracts, property insurance contracts, technical contracts, other documents in the nature of contracts, title transfer deeds, business account books, certificates of rights, licences and other documents confirmed to be taxable by the Ministry of Finance.

Taxes Applicable to Shareholders of Companies

Dividend-related Tax

Individual Investors

Pursuant to the *Individual Income Tax Law of the PRC* (《中華人民共和國個人所得稅法》) (as amended in 2011) dividends paid by PRC companies are generally subject to a PRC withholding tax levied at a rate of 20%. For PRC individuals, the dividends received from a PRC company shall be subject to withhold individual income tax at a rate of 20% and no tax preferential provisions have been promulgated in this respect.

For a foreign individual who is not resident of the PRC, the receipt of dividends from a company in the PRC is subject to a withholding tax of 20% unless reduced under an applicable tax treaty or specially exempted by the tax authority of the State Council.

Generally, a tax rate of 10% shall apply to the dividends paid by the company on shares listed in Hong Kong that are sold by foreign individuals without application to applicable tax authorities according to the treaties. When a tax rate of 10% is not applicable, the withholding company shall (i) return the excessive tax amount if the applicable tax rate is lower than 10%, (ii) withhold such foreign individual income tax at the applicable tax rate if the applicable tax rate is between 10% and 20%, and (iii) withhold such foreign individual income tax at a rate of 20% if no double taxation treaty is applicable.

Enterprise

Pursuant to the *Enterprise Income Tax Law of the PRC* (《中華人民共和國企業所得稅法》) effective from 1 January 2008 and its implementation regulations, a non-resident enterprise which has not established a representative office or other premises or whose established representative office or premises is not actually related to dividends and bonus received shall be subject to a 10% enterprise

income tax on its revenues sourced in China. Such withholding tax may be reduced or exempted pursuant to an applicable double taxation treaty. On the other hand, income from equity investment such as dividend and bonus between qualified resident enterprises are exempted from enterprise income tax. The aforesaid tax-exempted income shall exclude the income from tradable shares issued publicly by Tax Resident Enterprises and traded on stock exchanges where the holding period is less than 12 months.

Pursuant to the *SAT Notice on Issues concerning the Withholding and Payment of Enterprise Income Tax on the Dividends Paid by PRC Resident Enterprises to Overseas Non-resident Corporate H-share Holders* (《關於中國居民企業向境外H股非居民企業股東派發股息代扣代繳企業所得稅有關問題的通知》) promulgated by the SAT which became effective on 6 November 2008, a PRC resident enterprise shall withhold and pay the enterprise income tax at a uniform rate of 10% in respect of dividend distributions made to overseas non-resident corporate H Share holders for the year 2008 and beyond. Such withholding tax may be reduced or exempted pursuant to an applicable double taxation treaty.

Pursuant to the *Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Tax on Income* (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》) signed on 21 August 2006, the PRC government may impose tax on dividends paid to a Hong Kong resident including natural person and legal entity from a PRC company, but such tax shall not exceed 10% of the total sum of the dividends payable. If a Hong Kong resident company holds 25% or more of equity interest in a PRC company, such tax shall not exceed 5% of the total sum of dividends payable by that PRC company.

Furthermore, pursuant to the *Circular of the State Administration of Taxation on Relevant Issues relating to the Implementation of Dividend Clauses in Tax Treaty Agreements* (國家稅務總局關於執行稅收協定股息條款有關問題的通知), which was promulgated and with effect from 2 February 2009, all of the following requirements should be satisfied where a fiscal resident of the other party to the tax agreement needs to be entitled to such tax agreement treatment as being taxed at a tax rate specified in the tax agreement for the dividends paid to it by a Chinese resident company: (a) such a fiscal resident who obtains dividends should be a company as provided in the tax agreement; (b) owner's equity interests and voting shares of the Chinese resident company directly owned by such a fiscal resident reaches a specified percentage; and (c) the equity interests of the Chinese resident company directly owned by such a fiscal resident, at any time during the twelve months prior to the obtainment of the dividends, reach a percentage specified in the tax agreement.

In addition, according to *The Administrative Measures for Non-resident Enterprises to Enjoy Treatments under Tax Treaties (Trial)* (《非居民享受稅收協定待遇管理辦法(試行)》) (“Administrative Measures”) which came into force on 1 October 2009, where a non-resident enterprise (as defined under the PRC tax laws) that receives dividends from a PRC resident enterprise wishes to enjoy the favorable tax benefits under the tax arrangements, it shall submit an application for approval to the competent tax authority. Without being approved, the non-resident enterprise may not enjoy the favorable tax treatments provided in the tax treaties.

Tax Treaties

Investors who are not PRC residents but either reside in countries which have entered into double-taxation treaties with the PRC or reside in Hong Kong SAR or Macau SAR may be entitled to a reduction of the withholding tax imposed on the dividends paid to such investors by a PRC company. The PRC currently has signed double-taxation avoidance arrangements with Hong Kong SAR and Macau SAR respectively, and has double-taxation avoidance treaties with a number of other countries, including but not limited to Australia, Canada, France, Germany, Japan, Malaysia, the Netherlands, Singapore and the United Kingdom, etc. Under each of such double taxation avoidance treaties or arrangements, the rate of withholding tax imposed by PRC's taxation authorities may be generally reduced.

Share transfer-related tax

Individual Investors

According to the *Individual Income Tax Law of the PRC* (《中華人民共和國個人所得稅法》) and its implementation regulations, for individual holders of our Company's shares who have domicile in the PRC or though without domicile but have resided one year or more in the PRC, their gains realised on the sale of the Company's shares shall be subject to individual income tax at a rate of 20%.

For individual holders of our Company's shares who are neither domiciled nor resident in China, or who are not domicile and reside for less than one year in the PRC, their gains realised on the sale of our Company's shares outside the PRC as income derived from source outside the PRC shall not be subject to any individual tax under the PRC laws.

Enterprise

Pursuant to the EIT Law and its implementation regulations (《中華人民共和國企業所得稅法》) and the *SAT Notice on Certain Taxation Issues relating to the Persistent Implementation of Enterprise Income Tax Law* (《國家稅務總局關於貫徹落實企業所得稅法若干稅收問題的通知》), revenue of an enterprise arising from the transfer of equity interests shall be recognised upon the transfer agreement becoming effective and the completion of formalities relating to the change in equity interests. The amount of revenue generated from the transfer of equity interests less costs incurred for the acquisition of such equity interests shall be deemed as income arising from the transfer of equity interest. In computing its income arising from the transfer of equity interests, an enterprise should not deduct the amount of retained earnings (unallocated profit) of the investee that might be attributable to the equity interests transferred. The final computation of enterprise income tax shall be based on such income.

Pursuant to the EIT Law (《中華人民共和國企業所得稅法》) and its implementation regulations, for resident enterprise, capital gains realised on the sale of shares of our Company shall be subject to enterprise income tax at a rate of 25%; on the other hand, for non-resident enterprise which has not established a representative office or other premises or whose established representative office or premises is not actually related to gains realised shall be subject to a 10% enterprise income tax on its capital gains realised from the transfer of shares of our Company.

Estate duty or inheritance tax

There is no estate duty or inheritance tax levied in China at present.

Stamp duty

According to the terms of the *Provisional Regulations of the People's Republic of China on Stamp Duty* (《中華人民共和國印花稅暫行條例》), the applicable stamp tax of the PRC on transfers of shares of PRC public companies shall not apply to purchases and disposals of H Shares that take place outside the PRC. Such provisional regulations provide that PRC stamp tax shall be only levied on various types of documents executed or received and legally bound within the territory of the PRC and protected under PRC laws.

Taxation in Hong Kong*Tax on dividends*

Under the current practice of the Hong Kong Inland Revenue Department, no tax is payable in Hong Kong in respect of dividends paid by us.

Taxation on capital gains and profits

No tax is imposed in Hong Kong in respect of capital gains from the sale of the H Shares. Trading gains generated from the sale of H Shares by persons who carry out trade, professional services and businesses carried in Hong Kong will be subject to Hong Kong profit tax, if such gains are derived or sourced from such trade, professional services and businesses carried out in Hong Kong. Currently, the profit tax rate is 16.5% for corporations and no more than 15% for unincorporated businesses. Gains from sales of the H Shares effected on the Hong Kong Stock Exchange will be deemed to be derived from or sourced in Hong Kong. Therefore, persons engaged in securities trading or dealing businesses in Hong Kong are liable to paying Hong Kong profit tax for trading gains received from the sale of H Shares on the Hong Kong Stock Exchange.

Stamp duty

Hong Kong stamp duty will be payable by the purchaser on every purchase, and by the seller on every sale, of the H Shares. The duty is charged at the ad valorem rate of 0.1% of the consideration for, or (if greater) the value of, the H Shares transferred on each of the seller and purchaser. In other words, a total of 0.2% is currently payable on a typical transaction for the sale and purchase of H Shares. In addition, a fixed duty of HK\$5.00 is chargeable on each instrument of transfer (if required). Where a sale or purchase of H Shares is effected by a person who is not a resident of Hong Kong and who has not paid any stamp duty payable on the instrument of transfer, the transferee shall be liable to the payment of such duty and other duties payable in respect of relevant instrument of transfers (if any).

Estate duty

The Revenue (Abolition of Estate Duty) Ordinance 2005 came into effect on 11 February 2006 in Hong Kong. No Hong Kong estate duty is payable and no estate duty clearance papers are needed for an application for a grant of representation in respect of holders of H Shares who die on or after 11 February 2006.

PRC LAWS AND REGULATIONS CONCERNING FOREIGN EXCHANGE CONTROL**Regulations for the Administration of Foreign Exchange 《外匯管理條例》**

To strengthen foreign exchange administration, maintain balance in international payments and facilitate the stable development of national economy, the PRC government continues to exercise foreign exchange control. The *Regulations for Foreign Exchange Control of the People's Republic of China* (《中華人民共和國外匯管理條例》) (amended in 2008) are among the major foreign exchange control laws and regulations of China.

Under the said regulations, there are two categories of foreign exchange transactions: those under the current account and those under the capital account. Current account items refer to transactions conducted on a recurrent basis by way of international payments, such as trade income and expenditure, labour service income and expenditure and one-off transfer of funds; Capital account items refer to transactions involving capital inflow or outflow of international payments that will result in the increase/decrease of assets and liabilities, such as direct investments, various types of loans and securities investments.

Articles 12 to 15 in Chapter Two provides for the administration of foreign exchange activities for current account items. Article 12 stipulates that foreign exchange income and expenditure for current account items should be based on true and legal transactions. Financial institutions engaged in the business of foreign exchange settlement and sales should conduct reasonable examination as to the authenticity of receipts evidencing the transaction and its consistency with foreign exchange income and expenditure. Moreover, the SAFE is authorised to carry out supervision and inspection over the aforesaid matters.

Article 16 to 23 in Chapter Three provide for the administration of foreign exchange activities for capital account items, including but not limited to direct overseas investments, foreign debt and the provision of security to foreign entities.

Clarification and Explanation of Issues relating to Regulations for the Settlement, Sale and Payment of Foreign Exchange and SAFE Notice on Issues relating to the Processing of Outbound Remittance of Profit, Dividend and Bonus by Designated Foreign Exchange Banks 《關於結匯、售匯及付匯管理規定中有關問題的解釋和說明》和《國家外匯管理局關於外匯指定銀行辦理利潤、股息、紅利匯出有關問題的通知》

According to the *Clarification and Explanation of Issues relating to Regulations for the Settlement, Sale and Payment of Foreign Exchange* (《關於結匯、售匯及付匯管理規定中有關問題的解釋和說明》) issued by the SAFE on 4 July 1996, the outbound remittance of profit by foreign-invested enterprises is considered a current account item. Procedures for the remittance of profit by foreign-invested enterprises shall include:

- Obtaining a tax certificate from the SAT and local tax bureau to certify compliance with relevant tax rules, before remitting profit to overseas locations;
- Processed at designated foreign exchange banks.

According to the *SAFE Notice on Issues relating to the Processing of Outbound Remittance of Profit, Dividend and Bonus by Designated Foreign Exchange Banks* (《國家外匯管理局關於外匯指定銀行辦理利潤、股息、紅利匯出有關問題的通知》) promulgated by the SAFE on 22 September 1998 and further amended on 21 September 1999, foreign investors remitting their profit entitlements overseas shall furnish the following documents to designated foreign banks:

- Tax certificate evidencing the payment of tax;
- Audit report on annual profit, dividend and distribution furnished by an accounting firm;
- Board resolution on profit distribution and dividend;
- Foreign exchange registration certificate;
- Capital verification report furnished by an accounting firm;
- Other materials required by SAFE authorities.

Provided that if a foreign exchange transaction is considered an activity under the capital account, it must be registered with SAFE authorities and approved by the SAFE and relevant government authorities depending on the business nature of the enterprise making the application.

In the event of violation of relevant foreign exchange control regulations, orders may be given for the underlying assets to be transferred back to China and a penalty, normally equivalent to 30% of the amount concerned, will be imposed. In case of serious violations, personnel in-charge may be subject to criminal prosecution.

REGISTRATION CERTIFICATE OF OVERSEAS LISTING

Pursuant to Circular of the State Administration of Foreign Exchange on Issues Concerning Foreign Exchange Control for Overseas Listing (國家外匯管理局關於境外上市外匯管理有關問題的通知) promulgated with effect on 28 January 2013, a domestic company shall, within 15 working days

upon initial offerings of overseas listing, go through relevant registration formalities by presenting the required materials to the forex bureau at the place of registration. Upon verification of all required materials presented, the forex bureau shall issue a registration certificate of overseas listing to the domestic company. Based on its registration certificate of overseas listing, the domestic company shall open respective special domestic account for the initial offerings (or additional offerings) and buy-back business at the bank where it is located so as to handle corresponding funds remittance and transfer.

Where any domestic shareholder of a domestic company intends to increase or reduce overseas holdings upon overseas listing, he/she shall go through relevant registration formalities by presenting the required materials to the forex bureau at his/her place. Upon verification of all the required materials, the forex bureau shall issue a registration certificate of overseas holdings to the domestic shareholder. Based on his/her registration certificate of overseas holdings, a domestic shareholder of a domestic company shall open respective special domestic account for increasing (or reducing) overseas holdings business at the bank where his/her domicile is located so as to handle corresponding funds remittance and transfer.

Also pursuant to the Circular, a domestic company's collected funds of overseas listing may be transferred back to corresponding special domestic accounts or kept in special overseas accounts, provided that the use of such funds shall comply with the prospectus or corporate bonds collection documents, shareholders' circulars, resolutions of the Shareholders' Meetings and other publicly disclosed documents. Where the funds as collected by issuing corporate bonds convertible into stocks need to be transferred back, such funds shall be transferred to the special foreign debt account and used pursuant to relevant regulations on foreign debt administration; in the event of the funds as collected by issuing other forms of securities, such funds shall be transferred to corresponding special domestic accounts with respect to overseas listing.

The domestic shareholder's capital income obtained due to reducing or transferring overseas holdings or the domestic company's withdrawing from overseas securities market etc. shall be transferred back to the special domestic account with respect to reducing holdings within 2 years upon acquirement of the aforesaid income. The settlement of the above-mentioned transferred funds (if any) may be handled at banks by submitting the registration certificate of overseas holdings.

This Appendix contains a summary of the main provisions in our Articles of Association. The principal objective is to provide potential investors with an overview of our Articles of Association. As the information contained below is only a summary form, it does not contain all the information that may be important to potential investors. A copy of the full Chinese text of the Articles of Association is available for inspection as mentioned in “Appendix IX — Documents Delivered to the Registrar of Companies in Hong Kong and Available for Inspection”.

The Articles of Association and relevant amendments thereto were adopted or authorised by the shareholders in general shareholders’ meetings in accordance with applicable laws and regulations, including the *PRC Company Law*, the *Securities Law of the PRC*, the *Special Provisions of the State Council on Stock Raising and Listing Overseas by Limited Stock Companies*, the *Essential Clauses in Articles of Association of Companies Listed Overseas*, the *Guidance on Articles of Association Listed Company* and the *Hong Kong Listing Rules*, and will be effective on the Listing Date.

Directors and Other Officers

Power to allot and issue shares

There is no provision in the Articles of Association empowering the Directors to allot and issue Shares.

To increase the capital of the Company, the Board is responsible for formulating proposals for approval at a shareholders’ general meeting by way of special resolution.

Power to dispose of the fixed assets of the Company or any subsidiary

The Board is accountable to the shareholders’ general meeting.

When the Board is disposing the Company’s fixed asset, it shall not, without the prior approval or consent of shareholders’ general meeting, dispose or agree to dispose of, any fixed assets of the Company where the anticipated value of the assets to be disposed, together with the value of fixed assets that have been disposed in the period of four months immediately preceding the proposed disposition, exceeds 33% of the value of the Company’s fixed assets as shown in the last balance sheet reviewed by the shareholders’ general meeting.

For the purposes of the Articles of Association, a disposition of fixed assets includes certain acts of transfer of interests in assets but does not include the provision of fixed assets as security.

The validity of a disposition transaction by the Company of fixed assets shall not be affected by the breach of the above paragraph.

Emoluments and compensation or payments for loss of office

The Company shall, with the prior approval of shareholders' general meeting, enter into a contract in writing with each of the Directors and Supervisors wherein his emoluments are stipulated. The aforesaid emoluments include:

- (1) emoluments in respect of his service as a Director, Supervisor or senior executive officer of the Company;
- (2) emoluments in respect of his service as a Director, Supervisor or senior executive officer of any subsidiary of the Company;
- (3) emoluments in respect of other service in relation to the management of the Company and any subsidiary of the Company; and
- (4) payment by way of compensation for loss of office or retirement from office of a Director or Supervisors.

Except under the contract in accordance with the foregoing, no proceedings may be brought by a Director and Supervisor against the Company for any benefit due to him in respect of the above matters.

The contracts concerning the emoluments between the Company and its Directors or Supervisors shall provide that, when an acquisition of the Company is about to happen, the Directors and Supervisors shall, subject to the prior approval of the shareholders' general meeting, have the right to receive compensation or other payment in respect of his loss of office or retirement. The "acquisition of the Company" referred in this paragraph means either:

- (1) an offer made by any person to all shareholders; or
- (2) an offer made by any person with a view to the offeror becoming a "controlling shareholder" within the meaning set out in the Articles of Association.

If the relevant Director or Supervisor does not comply with the above, any sum so received by him shall belong to those persons who have sold their Shares as a result of the offer made. The expenses incurred in distributing such sum pro rata shall be borne by the relevant Director or Supervisor and not paid out of that sum.

Loans or Guarantees of Loans to Directors, Supervisors, other senior executive officers and/or their associates

The Company shall not directly or indirectly make a loan to, or provide any guarantee in connection with the making of a loan to a Director, Supervisor, Manager and other senior executive officer of the Company and of the Company's parent company. The Company shall not make a loan to, or provide any guarantee in connection with the making of a loan to an associate of the aforesaid parties. However, the following situations are not subject to such prohibition:

- (1) the provision by the Company of a loan or a guarantee of a loan to a company which is a subsidiary of the Company;

- (2) the provision by the Company of a loan or a guarantee in connection with the making of a loan or any other funds to a Director, Supervisor, Manager and other senior executive officer for him to pay for expenditure incurred by him for the purposes of the Company or for the purpose of enabling him to perform his duties, in accordance with the terms of an employment contract approved by the shareholders' general meeting; and
- (3) the Company may make a loan to or provide a guarantee in connection with the making of a loan to any of the relevant Directors, Supervisors, Manager and other senior executive officers on normal commercial terms, provided that the ordinary course of business of the Company includes the lending of money or the giving of guarantees.

A loan made by the Company in breach of the above provisions shall be forthwith repayable by the recipient of the payment regardless of the terms of the loan.

A guarantee provided by the Company in breach of the above provisions shall be unenforceable against the Company, but except in the following situations:

- (1) the loan was provided to an associate of any of the Directors, Supervisors, Manager and other senior executive officers of the Company or of the Company's parent company and at the time the loan was advanced the lender did not know the relevant circumstances; or
- (2) the collateral provided by the Company has been lawfully disposed of by the lender to a bona fide purchaser. For these purposes, a guarantee includes an undertaking or property provided to secure the performance of obligations by the obligor.

Financial assistance for the acquisition of shares in the Company or any subsidiary

Subject to the exceptions in the Articles of Association, the Company and its subsidiaries shall not, by any means at any time, provide any kind of financial assistance (as defined below) to a person who is acquiring or is proposing to acquire shares of the Company. The said acquirer of shares of the Company includes a person who directly or indirectly assumes any obligations (as defined below) due to the acquisition of the shares; the Company and its subsidiaries shall not, by any means at any time, provide financial assistance to the said acquirer as referred to above for the purpose of reducing or discharging the obligations assumed by that person.

For these purposes:

“Financial assistance” includes (without limitation) the following means:

- (1) gift;
- (2) guarantee (including the assumption of liability by the guarantor or the provision of assets by the guarantor to secure the performance of obligations by the obligor), or compensation (other than compensation caused by the Company's own default) or release or waiver of rights;

- (3) provision of a loan or entering into a contract under which the obligations of the Company are to be fulfilled before the obligations of another party, or a change in the parties to, or the assignment of rights arising under, such loan or agreement; or
- (4) any other form of financial assistance given by the Company when the Company is unable to pay its debts or has no net assets or when its net assets would thereby be reduced to a material extent. “Assuming an obligation” includes obligations assumed by the obligor that change its financial position by way of contract or the making of an arrangement (whether enforceable or not, and whether made on its own account or with any other persons), or by any other means.

The following conducts shall not be deemed to be prohibited conducts as referred to in the paragraphs above:

- (1) the provision of financial assistance by the Company where the financial assistance is given honestly in the interest of the Company, and the principal purpose in giving the financial assistance is not for the acquisition of shares in the Company, or the giving of the financial assistance is an incidental part of some larger plans of the Company;
- (2) the distribution of the Company’s assets by way of dividend in accordance with laws;
- (3) the allotment of bonus shares as shares;
- (4) a reduction of registered capital, a repurchase of shares of the Company or an adjustment of the share capital structure of the Company effected in accordance with the Articles of Association;
- (5) the lending of money by the Company for its normal business activities within the scope of business (however, the net assets of the Company shall not be thereby reduced; or, even if the assets were thereby reduced, the financial assistance is however provided out of distributable profits); and
- (6) the provision of money by the Company for contributions to staff and workers’ shares schemes (however, the net assets of the Company shall not be thereby reduced; or, even if the assets were thereby reduced, the financial assistance is however provided out of distributable profits).

Disclosure of interests in contracts, transactions or arrangements with the Company

Where a Director, Supervisor, Manager or other senior executive officer of the Company is directly or indirectly materially interested in a contract, transaction or arrangement or proposed contract, transaction or arrangement with the Company (other than the employment contracts the Company entered into with its Directors, Supervisors, Manager and other senior executive officers), he shall declare the nature and extent of his interests to the Board at the earliest opportunity, whether or not the contract, transaction or arrangement or proposal therefore is otherwise subject to the approval of the Board under normal circumstances.

A Director shall not vote on a board resolution that approves a contract, transaction, arrangement or any other proposals in which he or his associate (refer to the definition in applicable securities listing requirements from time to time) is materially interested; the relevant director shall refrain from voting and not be counted in the quorum for the meeting. Unless the interested Director, Supervisor, Manager or other senior executive officer discloses his interests to the Board in accordance with the aforesaid provisions and the Board approved that matter at a meeting in which the interested person is not counted in the quorum and refrains from voting, the Company has a right to void the contract, transaction or arrangement, except as against a bona fide party thereto acting without notice of the breach of duty by the interested Director, Supervisor, Manager or other senior executive officer.

A Director, Supervisor, Manager or other senior executive officer of the Company is deemed to be materially interested in a contract, transaction or arrangement in which an associate of his/hers is materially interested.

Where a Director, Supervisor, Manager or other senior executive officer of the Company gives to the Board a notice in writing stating that, by reason of the content specified in the notice, he is interested in contracts, transactions or arrangements of any description, which may subsequently be made by the Company, such notice shall be deemed for the purposes of this paragraph to be a sufficient declaration of his interests, so far as the content stated in such notice is concerned, provided that such general notice shall have been given before the date on which the question of entering into the relevant contract, transaction or arrangement is first taken into consideration on behalf of the Company.

Remuneration

The remuneration of Directors must be approved by the shareholders' general meeting, as referred to under the section headed "Emoluments and Compensation or Payments for Loss of Office" above.

Appointment, removal and retirement

Directors shall be elected by the shareholders' general meeting with a three-year term of office. Upon the expiration of a director's term of appointment, he may be re-elected and re-appointed.

Provided that relevant laws and administrative regulations have been complied with, the Shareholders' general meeting may remove any of its directors whose term of office may not expire from office by way of an ordinary resolution; the removal of an independent Director must be subject to relevant rules (but it will not affect any claim for damages that may arise from any contract).

A written notice of the intention to nominate a person for election as a director and a notice in writing by that person indicating his acceptance of such election is required to be given to the Company seven days prior to the day of meeting. The period for such nomination and such acceptance shall be not less than seven days (the beginning date of the seven-day notice period shall be not earlier than the second day after the notice of designed meeting of the nomination is dispatched and the ending date shall be not later than seven days before the shareholders' general meeting is convened).

The Board shall consist of 9 Directors, of which six shall be Directors with three independent Directors. The Board shall have one chairman. The chairman and vice-chairman shall be elected and removed by more than half of all of the Directors. A Director is not required to hold shares of the Company.

A person may not serve as a Director, Supervisor, Manager or any other senior executive officer of the Company if any of the following circumstances apply:

- (1) a person without or with restricted civil capacity;
- (2) a person who has committed an offence of corruption, bribery, infringement of property, misappropriation of property or sabotaging the social economic order and has been punished because of committing such offence; or who has been deprived of his political rights, in each case where no more than five years has elapsed since the date of the completion of implementation of such punishment or deprivation;
- (3) a person who is a former director, factory manager or manager of a company or enterprise which has entered into insolvent liquidation because of mismanagement and he is personally liable for the insolvency of such company or enterprise, where no more than three years has elapsed since the date of the completion of the insolvency and liquidation of such company or enterprise;
- (4) a person who is a legal representative of a company or enterprise which had its business licence revoked due to a violation of the law and who incurred personal liability, where no more than three years has elapsed since the date of the revocation of the business licence;
- (5) a person who has a relatively large amount of debts due and outstanding;
- (6) a person who is penalised by the China securities regulatory authority by being denied access to the securities market and the penalty remains in effect;
- (7) a person who is under criminal investigation by judicial organisation for violation of the criminal law which investigation is not yet concluded;
- (8) a person who is not eligible for enterprise leadership according to laws and administrative regulations;
- (9) a non-natural person;
- (10) a person convicted of the contravention of provisions of relevant securities regulations by a relevant governing authority, and such conviction involves fraudulent or dishonest conduct, where less than five years has elapsed since the date of the conviction; or
- (11) any other person who is otherwise not eligible under laws or rules set out by the securities regulatory bodies or stock exchanges on which Shares of the Company are listed.

The election, appointment or delegation of Directors in violation of the aforesaid provisions shall be null and void. Directors committing the above during his term of office shall be released of his duties by the Company.

There is no provision in the Articles of Association that imposes any age limit for Directors beyond which retirement of a Director is mandatory.

The validity of an act of a Director, a manager or other senior executive officer on behalf of the Company is not, vis-a-vis a bona fide third party, affected by any irregularity in his office, election or any defect in his qualification.

Borrowing powers

The Articles of Association do not contain any specific provision in respect of the manner in which borrowing powers may be exercised by the Directors nor do they contain any specific provision in respect of the manner in which such powers may be varied, other than: (a) provisions which give the Board the power to formulate proposals for the issuance of debentures by the Company; and (b) provisions which provide that the issuance of debentures must be approved by the shareholders' general meeting by way of a special resolution.

Duties

In addition to obligations imposed by laws, administrative regulations or required by listing rules of the stock exchanges on which Shares are listed, each of the Company's Directors, Supervisors, Managers and other senior executive officers owes a duty to each shareholder, in the exercise of the functions and powers of the Company entrusted to him:

- (1) not to cause the Company to exceed the scope of the business stipulated in its business licence;
- (2) to act honestly in the best interest of our Company;
- (3) not to expropriate in any guise the Company's property, including (without limitation) usurpation of opportunities advantageous to the Company; and
- (4) not to expropriate the individual rights of shareholders, including (without limitation) rights to distribution and voting rights, save pursuant to a restructuring of the Company submitted to shareholders' general meeting for approval in accordance with the Articles of Association.

Any liabilities of the Directors, Supervisors, Manager or other senior executive officers arising from violation of certain specific obligations may be released when the Shareholders' general meeting is informed, except in (2)–(4) the aforesaid situations.

Each of the Company's Directors, Supervisors, Managers and other senior executive officers owes a duty, in the exercise of his powers and discharge of his duties, to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

Each of the Company's Directors, Supervisors, Managers and other senior executive officers shall carry on his duties in accordance with the principle of fiduciary and shall not put himself in a position where his duty and his interest may conflict. This principle includes (without limitation) discharging the following obligations:

- (1) to act honestly in the best interests of the Company;
- (2) to exercise powers within the scope of his powers and not to exceed those powers;
- (3) to exercise the discretion vested in him personally and not to allow himself to act under the control of another and, unless and to the extent permitted by laws, administrative regulations or with the informed consent of shareholders' general meeting, not to delegate the exercise of his discretion;
- (4) to treat shareholders of the same class equally and to treat shareholders of different classes fairly;
- (5) except in accordance with the Articles of Association or with the informed consent of shareholders' general meeting, not to enter into any contract, transaction or arrangement with the Company;
- (6) without the informed consent of shareholders' general meeting, not to use the Company's property by any means for his own benefit;
- (7) not to exploit his position to accept bribes or other illegal income or expropriate the Company's property by any means, including (without limitation) opportunities advantageous to the Company;
- (8) without the informed consent of shareholders' general meeting, not to accept commissions in connection with the Company's transactions;
- (9) to abide by the Articles of Association, faithfully execute his duties and protect the Company's interests, and not to exploit his position and power in the Company to advance his own private interests;
- (10) not to compete with the Company in any form unless with the informed consent of shareholders' general meeting;
- (11) not to misappropriate the Company's funds or lend such funds to others, not to open accounts in his own name or other names for the deposit of the Company's assets and not to provide a guarantee for debts of a shareholder of the Company or other individual(s) with the Company's assets; and
- (12) unless otherwise permitted by informed shareholders' general meeting, to keep in confidential information acquired by him in the course of and during his tenure and not to use the information other than in furtherance of the interests of the Company, save that disclosure of such information to the court or other governmental authorities is permitted if: (i) disclosure

is required under law; (ii) the interests of the public require disclosure; (iii) the interests of the relevant Director, Supervisor, Manager or other senior executive officers require disclosure.

Each Director, Supervisor, Manager or other senior executive officer of the Company shall not cause the following persons or institutions (“associates”) to do what he is prohibited from doing:

- (1) the spouse or minor child of that Director, Supervisor, Manager or other senior executive officers;
- (2) the trustee of that Director, Supervisor, Manager or other senior executive officers or any person referred to in the preceding paragraph;
- (3) the partner of that Director, Supervisor, Manager or other senior executive officers or any person referred to in paragraphs (1) and (2) above;
- (4) a company in which that Director, Supervisor, Manager or other senior executive officer, alone or jointly with any person(s) referred to in paragraphs (1), (2) and (3) above; and other Directors, Supervisors, Manager and other senior executive officers have a de facto controlling interest;
- (5) the directors, supervisors, manager and other senior executive officers of the controlled company referred to in the preceding paragraph.

The fiduciary duties of the Directors, Supervisors, Managers and other senior executive officers of the Company do not necessarily cease with the termination of their tenure. The duty of confidence in relation to trade secrets of the Company survives the termination of their tenure. Other duties may continue for such period as fairness may require depending on the time lapse between the termination and the act concerned and any circumstance and condition under which the relationships between them and the Company are terminated.

In addition to any rights and remedies provided by the laws and administrative regulations, where a Director, Supervisor, Manager or other senior executive officer of the Company is in breach of his duties to the Company, the Company has a right to adopt the following measures:

- (1) claim damages from the Director, Supervisor, Manager or other senior executive officer in compensation for losses sustained by the Company as a result of such a breach of duties;
- (2) rescind any contract or transaction entered into by the Company with relevant Director, Supervisor, Manager or other senior executive officer or with a third party (where such third party knows or should know that there is such a breach of duties by such Director, Supervisor, Manager or other senior executive officer);
- (3) demand an account of the profits made by the Director, Supervisor, Manager or other senior executive officer in breach of his duties;

- (4) recover any funds received by the Director, Supervisor, Manager or other senior executive officer that should have been received by the Company, including (without limitation) commissions; and
- (5) demand payment of the interest earned or which may have been earned by the Director, Supervisor, Manager or other senior executive officer on the funds that should have been paid to the Company.

Alterations to Constitutional Documents

The Company may amend its Articles of Association in accordance with the requirements of law, administrative regulation and the Articles of Association.

Any alteration or rectification to the Articles of Association resolved by the Shareholders' general meeting subject to approvals of the authorities shall be approved by the original authorities. Where the amendment of the Articles of Association involves our registration, it shall be necessary to carry out the lawfully prescribed procedures for registration change.

Variation of Rights of Existing Shares or Classes of Shares

The following circumstances shall be deemed to be a variation or abrogation of the class rights of a class of shareholders:

- (1) to increase or decrease the number of Shares of such class, or to increase or decrease the number of Shares of a class having voting or equity rights or any other privileges equal or superior to those of the Shares of such class;
- (2) to effect an exchange of all or part of the Shares of such class into Shares of another class or to effect an exchange or grant a right of exchange of all or part of the Shares of another class into the Shares of such class;
- (3) to remove or reduce rights to accrued dividends or rights to cumulative dividends attached to Shares of such class;
- (4) to reduce or remove a dividend preference or a liquidation preference attached to Shares of such class;
- (5) to add, remove or reduce conversion privileges, options, voting rights, transfer or pre-emptive rights, or rights to obtain securities of the Company;
- (6) to remove or reduce rights to receive payment payable by the Company in particular currencies attached to Shares of such class;
- (7) to create a new class of Shares having voting or equity rights or privileges equal or superior to those of the Shares of such class;
- (8) to restrict the transfer or ownership of the Shares of such class or add to such restriction;

- (9) to issue rights to subscribe for, or convert into, shares of such class or another class;
- (10) to increase the rights and privileges of Shares of another class;
- (11) to restructure the Company where the proposed restructuring will result in different classes of shareholders bearing a disproportionate burden of proposed of the Company;
- (12) to vary or abrogate provisions set out in Chapter 9 of the Articles of Association.

Shareholders of the affected class, whether or not otherwise having the right to vote at shareholders' general meetings, shall nevertheless have the right to vote at class meetings in respect of matters concerning paragraphs (2) to (8), (11) and (12) above, but interested shareholder(s) (as defined below) shall not be entitled to vote at class meetings.

Resolutions of a class of shareholders shall be made only if it has been passed by votes representing more than two-thirds of the voting rights of shareholders represented at the class meeting who are entitled to vote at class meeting.

Written notice of a class meeting shall be given 45 days before the date of the class meeting to notify all of the shareholders in the share register of the class of the matters proposed to be considered in the class meeting and the date and the place of the class meeting. A shareholder who intends to attend the class meeting shall deliver his written reply concerning attendance at the class meeting to the Company 20 days before the date of the class meeting. When the Company calculates the above period, it shall not include the day when the meeting is convened.

If the number of Shares carrying voting rights at the meeting represented by the shareholders who intend to attend the class meeting reaches one half or more of the voting Shares of such class at the class meeting, the Company may hold the class meeting; if not, the Company shall within five days notify the shareholders of the class, again by public notice, of the matters proposed to be considered, the date and the place for the class meeting. The Company may then hold the class meeting after publication of such notice. If the region in which Shares of the Company are listed has other specific requirements in respect of public listing, they shall be complied with.

Notice of class meetings need only be served on shareholders entitled to vote thereat.

Meetings of any class of shareholders shall be conducted in procedures as similar as possible to those of general meetings of shareholders. The provisions of the Articles of Association relating to the procedures of conducting shareholders' general meeting shall apply to the meeting of a class of shareholders.

The special procedures for voting at a class of shareholders shall not apply in the following circumstances:

- (1) where the Company issues, upon the approval by a special resolution of its shareholders' general meeting, either separately or concurrently once every 12 months, not more than 20% of each of its existing issued Domestic Shares and H Shares;

- (2) where the Company's plan to issue Domestic Shares and H Shares at the time of its establishment is carried out within 15 months from the date of approval of China Securities Regulatory Commission;
- (3) where upon the approval from the relevant China securities regulatory authority, the domestic shareholders of the company transfer the Domestic Shares held thereby to overseas investors and such transferred shares are listed and traded overseas; or
- (4) where upon the approval from the relevant China Securities regulatory authority, the domestic shareholders of the Company have their non-listed shares listed and traded on a overseas stock exchange.

For the purposes of the class rights provisions of the Articles of Association, the meaning of "interested shareholder(s)" is as following:

- (1) in the case of a repurchase of Shares by offers to all shareholders pro rata in accordance with Article 33 of the Articles of Associations, or public dealing on a stock exchange, a "materially interested shareholder" means a "controlling shareholder" within the meaning of the Articles of Association;
- (2) in the case of a repurchase of Shares by an off-market agreement in accordance with Article 33 of the Articles of Associations, a "materially interested shareholder" means a holder of the Shares to which the proposed agreement relates; and
- (3) in the case of a restructuring of the Company, a "materially interested shareholder" means a shareholder within a class who bears less than a proportionate burden imposed on that class under the proposed restructuring plan or who has an interest different from the interest of shareholders of that class.

Resolutions — Majority Required

Resolutions of shareholders' general meetings shall be divided into ordinary resolutions and special resolutions.

To adopt an ordinary resolution by a shareholders' general meeting, more than half of the voting rights represented by the shareholders (including proxies of shareholders) present at the meeting shall be exercised to pass the resolution.

To adopt a special resolution by a shareholders' general meeting, more than two-thirds of the voting rights represented by the shareholders (including proxies of shareholders) present at the meeting shall be exercised to pass the resolution.

Voting Rights (generally, on a poll and right to demand a poll)

The ordinary shareholders of the Company have the right to attend or appoint a proxy to attend shareholders' general meetings and to vote thereat. A shareholder (including proxy) when voting at a shareholders' general meeting may exercise voting rights in accordance with the number of shares

carrying the right to vote and each share shall have one vote. At any general meeting of shareholders a resolution shall be decided on a show of hands, unless before or after any vote by show of hands, a poll is demanded by the following persons:

- (1) by the chairperson of the meeting;
- (2) by at least two shareholders entitled to vote or proxies of such shareholders; or
- (3) by one or more shareholders (including proxies of such shareholders) who individually or collectively representing more than 10% (including 10%) of shares carrying the right to vote at the meeting.

Unless a poll be so demanded by some person, a declaration by the chairperson that a resolution has on a show of hands been carried out and an entry to that effect in the minutes of the meeting shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favour of or against such resolution. The demand for a poll may be withdrawn by the person who makes such demand.

A poll demanded on the election of the chairperson of the meeting, or on a question of adjournment of the meeting, shall be taken forthwith. A poll demanded on any other questions shall be taken at such time as the chairperson of the meeting directs, and any business, other than that upon which a poll has been demanded may be proceeded with. The result of the poll shall be deemed to be a resolution of the meeting at which the poll was demanded.

On a poll, a shareholder (including proxies of shareholders) entitled to two or more votes need not cast all his votes in the same way.

In the case of an equality of votes, whether on a show of hands or on a poll, the chairperson of the meeting shall be entitled to one additional vote.

Requirements for Annual General Meetings

The Board shall convene an annual shareholders' meeting once each year and within six months from the close of the preceding financial year.

Accounts and Audit

The Company shall establish its financial and accounting system in accordance with the laws, administrative regulations and PRC accounting standards formulated by the finance regulatory department of the State Council.

The Board shall place before the shareholders at every annual general meeting such financial reports as are required by any laws, administrative regulations or directive documents promulgated by regional government and competent authorities to be prepared by the Company. Such financial reports shall be verified by an accounting firm.

The Company's financial reports shall be made available for shareholders' inspection at the Company 20 days before the date of every shareholders' annual general meeting. Each shareholder of the Company shall be entitled to obtain a copy of the financial reports that are referred in the Articles of Association. The Company shall send the aforesaid financial reports to each of the overseas-listed foreign-invested shareholders by prepaid mail at least 21 days before the date of every shareholders' annual general meeting to their addresses as shown in the register of shareholders.

The financial reports shall be given in the form of an announcement (including through our Company website), provided that laws, administrative rules, regulations and the relevant provisions of the securities regulatory authority where the shares are listed have been conformed.

The financial statements of the Company shall, in addition to being prepared in accordance with PRC accounting standards and regulations, be prepared in accordance with either International Financial Reporting Standards, or that of the overseas place where the Company's shares are listed. If there is any material difference between the financial statements prepared respectively in accordance with the two accounting standards, such difference shall be stated in an appendix to the financial statements. When the Company is to distribute its after-tax profit of a financial year, it is required to make distributions based on the lower of the Company's after-tax profits determined under the two accounting standards.

Any interim results or financial information published or disclosed by the Company shall also be prepared and presented in accordance with PRC accounting standards and regulations, and also in accordance with either International Financial Reporting Standards or that of the overseas place where the Company's shares are listed.

Our Company shall submit the interim financial reports within two months of the ending date of the first six months of each accounting year, submit the annual accounting report within four months of the ending date of each accounting year and submit its quarterly financial reports within one month of the ending date of the first three months and the first nine months of each accounting year.

Notice of Meetings and Business to be Conducted thereat

The shareholders' general meeting is the organ of authority of the Company and shall exercise its functions and powers in accordance with law. Except where the Company is in extraordinary situations such as a crisis, the Company shall not, without the approval of shareholders' general meeting in the form of special resolutions, enter into any contract with any person other than a Director, Supervisor, Manager or other senior executive officer whereby the management of the whole or a substantial part of the business of the Company is to be handed over to such person to be in charge of. Shareholders' general meetings are divided into annual general meetings and extraordinary general meetings. Shareholders' general meeting shall be convened by the Board. Under any of the following circumstances, the Board shall convene an extraordinary general meeting within two months:

- (1) when the number of Directors is less than the number required by the PRC Company Law or less than two-thirds of the number of Directors specified in the Articles of Association;
- (2) when the unrecovered losses of the Company amount to one-third of the total amount of its share capital;

- (3) when shareholder(s) holding more than 10% (including 10%, proxy exclusive) of the Company's issued and outstanding shares carrying voting rights request(s) in writing the convening of an extraordinary general meeting;
- (4) when deemed necessary by the Board or as requested by the supervisory committee;
- (5) when more than half of independent Directors agree upon a request made by independent Directors to convene an extraordinary general meeting; or
- (6) any other circumstances described in laws, administrative regulations, rules or the Articles of Associations that require to convene an extraordinary general meeting.

When the Company convenes a Shareholders' general meeting, written notice of the meeting shall be given 45 days before the date of the meeting to notify all of the shareholders in the share register of the matters proposed to be considered and the date and the place of the meeting. When the Company calculates the period, it shall not include the day when the meeting is convened. A shareholder who intends to attend the meeting shall deliver his written reply concerning the attendance of the meeting to the Company 20 days before the date of the meeting.

When the Company convenes a Shareholders' annual general meeting, the Board, the supervisory committee or the shareholders who individually or collectively holds more than 3% of the total voting shares of the Company shall have the right to propose motions, and the Company shall place matters in the proposed motions within the scope of functions and powers of the shareholders' general meeting on the agenda.

Unless in the circumstance set out in the preceding paragraph, the convener, after sending out the public notice of shareholders' general meeting, shall not amend or add any new matter to those that have already been listed in the notice of meeting.

The Company shall, based on the written replies received 20 days before the date of the shareholders' general meeting, calculate the number of voting shares represented by shareholders who intend to attend the meeting. If the number of voting shares represented by the shareholders who intend to attend the meeting reaches more than one half of the Company's total voting shares, the Company may hold the meeting. If not, then the Company shall within five days notify the shareholders again by public notice of the matters proposed to be considered, the place and the date for the meeting. The Company may hold the meeting after the publication of such notice.

A notice of meeting of shareholders shall comply with the following requirements:

- (1) be made in writing;
- (2) specify the place, the date and the hour of the meeting;
- (3) state the matters to be discussed at the meeting;

- (4) provide the shareholders with such information and explanations as are necessary for the shareholders to exercise an informed judgement on the proposals before them. It principally includes (but is not limited to), where a proposal is made to amalgamate the Company, to repurchase shares, to reorganise the share capital or to restructure the Company in any other way, the conditions of the proposed transaction must be provided in detail together with the proposed contract (if any), and the cause and consequence of such proposal must be properly explained;
- (5) contain a disclosure of the nature and extent, if any, of the material interests of any Director, Supervisor, Manager or other senior executive officer in the transaction proposed and the effect of the proposed transaction on such Director, Supervisor, Manager or other senior executive officer in their capacity as shareholders in so far as it is different from the effect on the interests of the shareholders of the same class;
- (6) contain the full text of any special resolution proposed to be voted at the meeting;
- (7) contain conspicuously a statement that a shareholder entitled to attend and vote is entitled to appoint one or more proxies to attend and vote instead of him and that a proxy need not be a shareholder;
- (8) specify the time and place for lodging proxy forms for the relevant meeting;
- (9) list out the share registration date of shareholders who are entitled to attend the shareholders' general meeting;
- (10) contain the names and phone numbers of the long-term contact persons for the meeting.

The aforesaid provisions are applicable to the notices for the Shareholders' general meeting held by the Supervisory Board or the Shareholders in accordance with the Articles of Association.

Notice of Shareholders' general meeting shall be served on the shareholders (whether or not entitled to vote at the meeting), by delivery or prepaid mail to their addresses as shown in the register of shareholders. The notice for the Shareholders' annual meeting shall be given in the form of an announcement, provided that laws, administrative rules, regulations and the relevant provisions of the securities regulatory authority where the shares are listed have been conformed.

The public notice shall be published in one or more newspapers designated by the China securities regulatory authority or in the form which is in conformity with laws, administrative rules, regulations and the relevant provisions of the securities regulatory authority where the shares are listed within an interval between 45 days and 50 days before the date of the meeting. After the publication of such notice, the shareholders shall be deemed to have received the notice of the relevant shareholders' general meeting.

The following matters shall be resolved by an ordinary resolution at a shareholders' general meeting:

- (1) work reports of the Board and the supervisory committee;

- (2) plans formulated by the Board for the distribution of profits and for making up losses;
- (3) appointment and removal of the members of the Board and members of the supervisory committee, their remuneration and method of payment;
- (4) annual preliminary and final budgets of the Company;
- (5) the annual financial reports of the Company; and
- (6) matters other than those required by the laws and administrative regulations or by the Articles of Association to be adopted by special resolution.

The following matters shall be resolved by a special resolution at a shareholders' general meeting:

- (1) the increase or decrease of the registered capital;
- (2) the issue of debentures of the Company;
- (3) the division, merger, change of the corporate form, dissolution and liquidation of the Company;
- (4) amendments to the Articles of Association;
- (5) the repurchase of the Company's own shares;
- (6) the prices or amount of the transactions cumulated within 12 continuous months in relation to purchase or sale of the Company's assets that reach 30% of the total assets shown in the latest audit;
- (7) the stock option incentive plans of the Company;
- (8) any other matters set out in the Articles of Associations and considered by the shareholders' general meeting by way of an ordinary resolution that may have a material impact on the Company and should be adopted by a special resolution.

Transfer of Shares

Subject to the approval of the China securities regulatory authority Shares of the Company held on the Domestic Share register may be transferred to overseas investors, and such transferred Shares may be listed or traded on an overseas stock exchange. Any listing or trading of the transferred Shares on an overseas stock exchange shall also comply with the regulatory procedures, rules and requirements of such overseas stock exchange.

All the fully paid-up overseas-listed foreign-invested shares traded on the Hong Kong Stock Exchange can be freely transferred in accordance with the Articles of Association; but unless the requirements stipulated in the Articles of Association are met, the Board may refuse to accept any transfer documents without giving any explanation for such refusal.

The alteration or rectification of each part of the share register shall be carried out in accordance with the laws of the place where the register is maintained.

No changes in the shareholders' register due to the transfer of shares may be made within 30 days before the date of a shareholders' general meeting or within five days before the record date for the Company's distribution of dividends.

Power of the Company to Purchase its Own Shares

In accordance with the provisions of the Articles of Association, the Company may reduce its registered share capital. The Company may, with approval according to the procedures provided in the Articles of Association and subject to the approval of the relevant governing authority of the State, repurchase its issued shares under the following circumstances:

- (1) cancellation of shares for the reduction of the Company's capital;
- (2) merging with another company that holds shares in the Company;
- (3) providing shares as award to staff and workers of the Company;
- (4) requests from the shareholders who demand the Company to buy back their shares due to dissents to the resolution of merger or dissolution of the Company passed by the shareholders' general meeting;
- (5) other circumstances permitted by laws and administrative regulations.

The Company may, with the approval of the relevant State governing authority, repurchase its shares, conducting the repurchase in one of the following ways:

- (1) making an offer of repurchase to all of its shareholders on pro rata basis;
- (2) repurchase shares through public dealing on a stock exchange;
- (3) repurchase by an off-market agreement; or
- (4) other methods permitted by China securities regulatory authority.

Where the Company repurchases its shares by an off-market agreement, the prior approval by the shareholders' general meeting shall be obtained in accordance with the Articles of Association. The Company may, with the prior approval of the shareholders' general meeting obtained in the same manner, revoke or vary a contract so entered into by the Company in the aforesaid way, or waive its rights under such contract.

A contract to repurchase shares includes (without limitation) an agreement to become obliged to repurchase or an acquisition of the right to repurchase shares. The Company shall not assign the contracts to repurchase shares and its rights under such contracts.

Shares repurchased in accordance with law by the Company shall be cancelled within the period prescribed by laws and administrative regulations, and the Company shall apply to the original companies registration authority for registration of the change of its registered shares capital. The amount of the Company's registered shares capital shall be reduced by the par value of those cancelled shares.

Unless the Company is in the course of liquidation, it must comply with the following provisions in relation to repurchase of its issued Shares:

- (1) where the Company repurchases Shares of the Company at par value, payment shall be made out of book surplus distributable profits of the Company and proceeds of a fresh issue of Shares made for that purpose;
- (2) where the Company repurchases Shares of the Company at a premium to its par value, payment up to the par value shall be made out of the book surplus distributable profits of the Company and the proceeds of a fresh issue of Shares made for that purpose. Payment of the portion in excess of the par value shall be effected as follows: (i) if the Shares being repurchased were issued at par value, payment shall be made out of the book surplus distributable profits of the Company; or (ii) if the Shares being repurchased were issued at a premium to its par value, payment shall be made out of the book surplus distributable profits of the Company and the proceeds of a fresh issue of Shares made for that purpose, provided that the amount paid out of the proceed of the fresh issue shall not exceed the aggregate of premiums received by the Company on the issue of the old Shares repurchased nor the amount of the Company's share premium account at the time of the repurchase (or of the capital reserve account) (including the premiums on the fresh issue);
- (3) payment by the Company in consideration of the following shall be made out of the Company's distributable profits: (i) acquisition of rights to repurchase Shares of the Company; (ii) variation of any contract to repurchase Shares of the Company; and (iii) release of any of the Company's obligations under any contract to repurchase Shares of the Company; and
- (4) after the Company's registered share capital has been reduced by the total par value of the cancelled Shares in accordance with the relevant provisions, the amount deducted from the distributable profits of the Company for payment of the par value portion of the Shares repurchased shall be recorded to the Company's share premium account (or the capital reserve account).

Power for any Subsidiary of the Company to Own Shares in the Company

There are no provisions in the Articles of Association preventing ownership of Shares in the Company by a subsidiary.

Dividends and Other Methods of Profits Distribution

The Company may distribute dividends in the following manner:

- (1) cash; or
- (2) Stock.

Dividends declared by the Company to be payable to holders of domestic-invested shares shall be declared in Renminbi, and paid in Renminbi. Those payable to holders of H Shares shall be declared in Renminbi, and paid in HKD.

The Company shall appoint receiving agents on behalf of holders of overseas-listed foreign-invested Shares. The receiving agents shall receive on behalf of such shareholders dividends distributed and all other monies owing by the Company in respect of their overseas-listed foreign-invested Shares. The appointment of such receiving agents shall comply with laws or relevant rules required by the stock exchange on which the shares are listed. The receiving agents appointed by the Company on behalf of holders of the overseas-listed foreign-invested Shares traded on the Hong Kong stock exchange shall be a company registered as a trust company under the Trustee Ordinance of Hong Kong.

The Company may exercise the power to revert unclaimed dividends to the Company in accordance with relevant PRC laws and regulations and rules imposed by the Hong Kong Stock Exchange, but such power should not be exercised until the relevant applicable period has expired. The Company may stop sending dividend cheques by mail to certain holders of the overseas-listed foreign-invested Shares who failed to withdraw two successive dividend cheques or to whom the initial dividend cheques could not be delivered and bounced.

The Company is entitled to sell the Shares held by holders of the overseas-listed foreign-invested Shares in a reasonable manner according to the opinions of the Board when such holders could not be reached, but subject to the following conditions: dividends have been distributed on such Shares at least three times within 12 years, provided that no one has ever claimed those dividends within that 12-year period; in addition to the above, the Company, after the expiration of 12 years, published a notice on one or more newspapers of the place where the Shares were listed, stating its intention to sell the Shares, and informed the stock exchange on which such Shares were listed.

Proxies

Any shareholder entitled to attend and vote at a meeting of the shareholders shall be entitled to appoint one or more other persons (whether a shareholder or not) as his proxies to attend and vote on his behalf, and a proxy so appointed shall:

- (1) have the right as the shareholder to speak at the meeting;
- (2) have authority to demand or join in demanding a poll; and
- (3) have the right to vote by hand or on a poll, but if a shareholder has appointed more than one proxies, those proxies may only vote on a poll.

If the Shareholder is a legal entity, its legal representative or such person as is authorised by resolution of its Board or other governing body to act as its representative may attend at the meetings of shareholders of the Company as a representative of the Shareholder. If it is the legal representative who attends the meeting, he should produce his own Identity Card, stock account card and any certificate that could prove his identity as a legal representative and the stock certificate; if it is the appointed proxy who attends the meeting, he should produce his own Identity Card, the instrument of proxy issued by the legal representative of the Shareholder entity in writing in accordance with law, stock account card and the stock certificate. The instrument appointing a voting proxy shall be deposited at the residence of the Company or at such other place as specified for that purpose in notice convening the meeting, not less than 24 hours before the time for holding the meeting at which the proxy proposes to vote or the time appointed for the passing of the resolution. If the instrument appointing a voting proxy is signed by a person under a power of attorney or other authority on behalf of the appointer, a notary certified copy of that power of attorney or other authority, shall be deposited at the residence of the Company or at such other place as is specified for that purpose in the notice convening the meeting.

Any form issued to a shareholder by the Board of the Company for use by him for appointing a shareholder proxy shall be such as to enable the shareholder according to his intention, to instruct the proxy to vote in favour of or against each resolution at the meeting. Such a form shall contain a statement that in the absence of instructions by the shareholder the proxy may vote as he thinks fit.

A vote given in accordance with the terms of an instrument of proxy shall be valid notwithstanding the previous death or loss of capacity of the appointer or revocation of the proxy or of the authority under which the proxy was executed, or the transfer of the relevant shares, provided that no notice in writing of such affairs as aforesaid shall have been received by the Company before the commencement of the relevant meeting at which proxy is used.

Calls on Shares and Forfeiture of Shares

There are no provisions in the Articles of Association relating to the making of calls on Shares or for the forfeiture of Shares.

Rights of Shareholders (including inspection of register)

The ordinary shareholders of the Company shall enjoy the following rights:

- (1) the right to dividends and other distributions in proportion to the number of Shares held;
- (2) to request, convene, preside over, participate in, or appoint a shareholder proxy by law to participate in and exercise corresponding voting rights at the Shareholders' general meeting;
- (3) the right of supervisory management over the Company's business operations, and the rights to present proposals or to raise enquires;
- (4) to transfer, gift or pledge the shares held according to the provisions of the laws, administrative rules and the Articles of Association;

- (5) the right to obtain relevant information in accordance with the provisions of the Articles of Association, including: (i) the right to obtain a copy of the Articles of Association, subject to payment of the cost of such copy; (ii) the right to inspect and copy, subject to payment of a reasonable charge: (a) all parts of the register of shareholders; (b) personal particulars of each of the Directors, Supervisors, Manager and other senior executive officers as follows: (1) present name and alias and any former name and alias; (2) principal address (residence); (3) nationality; (4) primary and all other part-time occupations; and (5) identification document and its number; (c) report on the state of the Company's share capital; (d) the latest audited financial reports of the Company, and the reports of the Board, auditor and Supervisor; (e) the Special Resolutions of the Company; (f) reports showing the aggregate par value, quantity, maximum and minimum price paid in respect of each class of Shares repurchased by the Company since the end of the last accounting year and the aggregate amount incurred by the Company for this purpose; (g) a copy of the latest annual quality report that has been submitted to the State Administration for Industry and Commerce or has filed with other governing authorities; and (h) minutes of shareholders' general meetings;
- (6) in the event of the termination or liquidation of the Company, to participate in the distribution of remaining assets of the Company in accordance with the number of Shares held;
- (7) to request our Company to purchase Shares of Shareholders objecting to a resolution adopted at the Shareholders general meeting concerning the merger or division of our Company; and
- (8) other rights conferred by laws, administrative regulations and the Articles of Association.

Quorum for Shareholders' General Meetings and Separate Class Meetings

The Company may calculate the number of voting Shares represented by those shareholders from whom the Company has received, 20 days before the meeting, notices of intention to attend the meeting. The Company may convene a shareholders' general meeting where the number of voting Shares represented by those shareholders who intend to attend the meeting reaches more than one half of the Company's voting Shares; if that number is not reached, the Company shall within five days notify the shareholders again of the matters proposed to be considered at the meeting, the date and the place of the meeting by way of public announcement. After such public announcement, the Company may hold the shareholders' general meeting.

Please refer to the Section headed "Variation of Rights of Existing Shares or Classes of Shares" above for the requirements of convening of a shareholders' class meeting and the quorum.

Rights of the Minorities in Relation to Fraud or Oppression

In addition to obligations imposed by laws, administrative regulations or required by the stock exchange on which Shares of the Company are listed, a controlling shareholder shall not exercise his voting rights in respect of the following matters in a manner prejudicial to the interests of the shareholders generally or of some part of the shareholders of the Company:

- (1) to release Director or Supervisor of his duty to act honestly in the best interests of the Company;
- (2) to approve the expropriation by a Director or Supervisor (for his own benefit or for the benefit of another person), in any guise, of the Company's assets, including (without limitation) opportunities beneficial to the Company; or
- (3) to approve the expropriation by a Director or Supervisor (for his own benefit or for the benefit of another person) of the individual rights of other shareholders, including (without limitation) rights to distributions and voting rights save pursuant to a restructuring in relation to the Company submitted to shareholders' general meeting for approval in accordance with the Articles of Association of the Company.

For these purposes, a "controlling shareholder" means a person who satisfies any one of the following conditions:

- (1) he alone, or acting in concert with others, has the power to elect more than half of the Directors;
- (2) he alone, or acting in concert with others, has the power to exercise or to control the exercise more than of 30% (including 30%) of the voting rights in the Company;
- (3) he alone, or acting in concert with others, holds more than 30% (including 30%) of the issued and outstanding shares of the Company; or
- (4) he alone, or acting in concert with others, in any other manner controls the Company in fact.

The phrase of "acting in concert" referred in the paragraphs above means the act or the fact that an investor collectively with other investors, through an agreement or other arrangements, extend the number of voting Shares they can control of a public Company.

Procedures on Liquidation

The Company shall be dissolved and liquidated in accordance with law upon the occurrence of any of the following events:

- (1) the term of business of the Company has expired;
- (2) a resolution for dissolution is passed by shareholders' general meeting;
- (3) dissolution is necessary due to a merger or division of the Company;

- (4) the business licence is cancelled or it is ordered to close down or to be dissolved according to the laws; or
- (5) where our Company encounters significant difficulties in business and management, continuous survival may be significantly detrimental to the interests of the Shareholders, and the difficulties may not be overcome through other means, Shareholders who hold more than 10% of the Shares carrying voting rights may request the People's Court to dissolve our Company.

Where the Board decides to liquidate the Company (due to causes other than the declaration of insolvency), the Board shall, in its notice convening a shareholders' general meeting to consider the proposal to the effect, state that the Board has made full inquiry into the affairs of the Company and is of the opinion that the Company can pay its debts in full within 12 months after the commencement of the liquidation.

Upon the passing of the resolution by the shareholders' general meeting for the liquidation of the Company, all functions and powers of the Board of the Company shall cease.

The liquidation committee shall act in accordance with the instructions of the shareholders' general meeting to make a report at least once every year to the shareholders' general meeting on the committee's receipts and payments, the business of the Company and the progress of the liquidation and to present a final report to the shareholders' general meeting on completion of the liquidation.

Other Provisions Material to the Company and the Shareholders

General Provisions

The Company is a joint stock limited liability company with the business term of 50 years.

The Articles of Association constitute a legally binding document regulating the Company's organisation and activities since the date it becomes effective, and the rights and obligations between the Company and each shareholder and among the shareholders.

The Company may invest in other limited liability or stock limited companies, and may assume a liability only to the extent limited by the amount of the capital contribution made into that company. Unless otherwise provided by law, the Company shall not become jointly liable for liabilities of the enterprise it invested in.

The Company may, based on its requirements for operation and development and in accordance with the relevant provisions of the Articles of Association, approve an increase in capital.

The Company may increase its capital in the following ways:

- (1) offering new shares to non-specialty-designated investors for subscription;
- (2) placing new shares to its existing shareholders;
- (3) distributing new shares to its existing shareholders;

- (4) transferring shares from the capital reserve; and
- (5) any other way permitted by law and administrative regulations.

The Company's increase in capital by issuing new shares shall, after being approved in accordance with the provisions of the Articles of Association, be conducted in accordance with the procedures stipulated by relevant national laws and administrative regulations.

Unless otherwise provided by law or administrative regulation, shares in the Company are freely transferable in accordance with law and are not attached with any lien.

When the Company reduces its registered share capital, it must draw up a balance sheet and an inventory of assets. The Company shall notify creditors within ten days of the date of the Company's resolution for reduction of share capital and shall publish a notice in a newspaper at least three times within 30 days of the date of such resolution. A creditor has the right within 30 days of receiving the notice or, in the case of a creditor who does not receive the notice, within 45 days of the date of the first public notice, to demand the Company to repay its debts or provide a corresponding guarantee for such debt. The Company's registered capital after reduction shall not be less than the statutory minimum amount.

The ordinary shareholders of the Company shall assume the following obligations:

- (1) to abide by laws, administrative regulations and the Articles of Association;
- (2) to pay subscription funds according to the number of shares subscribed and the method of subscription;
- (3) not to withdraw shares, unless in the circumstances set out by laws, administrative regulations;
- (4) not to damage the interests of the Company or the interests of other shareholders by abuse of shareholders' rights; not to damage the interests of the Company's creditors by abuse of the status of the Company as an independent legal person or the limited liability of the shareholders; the shareholder of the Company shall be liable for the losses caused by their abuse of rights to the Company or other shareholders in accordance with law. The shareholders of the Company shall be jointly liable for the Company's debts if, due to their abuse of the Company's independent legal person status and limited shareholder liability, serious damages were caused to the creditors of the Company; and
- (5) to assume any other obligation required by laws, administrative regulations and the Articles of Associations.

Shareholders are not liable to make any further contribution to the share capital other than as agreed by the subscriber of the relevant shares on subscription.

Board

The Board is responsible to the shareholders' general meeting and exercises the following functions and powers:

- (1) to be responsible for convening shareholders' general meetings and to report on its work to the shareholders' general meeting;
- (2) to implement the resolutions of the shareholders' general meetings;
- (3) to decide on the Company's business plans and investment plans;
- (4) to formulate the Company's annual financial budget and final report;
- (5) to formulate the Company's profit distribution plan and loss recovery plan;
- (6) to formulate financial and debt plans, to formulate proposals for the increases or decrease of the Company's registered capital, for the issue of corporate debentures or other securities, and to formulate listing plans;
- (7) to formulate the plans for significant purchase and sell and repurchase of the Company's shares;
- (8) to formulate plans for merger, division, change of form or dissolution of the Company;
- (9) to decide on the affairs in relation to investment, purchase or sale of assets, mortgaging assets, consignment of asset management, related party transactions and etc., but within the scope of authorisation of the shareholders' general meeting set out in the Articles of Associations;
- (10) to decide on the establishment of the Company's branches and internal management structure;
- (11) to appoint or remove the Company's manager and secretaries of the Board, to appoint or remove the Company's deputy managers, Chief Financial Officer, and other senior executive officers based on the nomination provided by the Manager, and to decide on the matters of their remuneration and reward;
- (12) to formulate the proposal of standards of allowances for the independent Directors of the Company;
- (13) to formulate the Company's basic management system;
- (14) to formulate proposals for any amendment to the Articles of Association;
- (15) to formulate the stock option incentive plans of the Company;
- (16) to manage the affairs in relation to information disclosure of the Company;

- (17) to propose to the shareholders' general meetings the appointment or change of the accounting firm to conduct auditing of the Company;
- (18) to inspect and hear Managers reporting on their work;
- (19) to review and approve the external guarantees granted by the Company that are not required to be reviewed and approved by the shareholders' general meeting set out in the Articles of Associations;
- (20) other powers authorised by the Shareholders' general meeting and regulated by the laws, regulations, regulations of the relevant stock exchange or the Articles of Association.

The Board shall make the resolutions in respect of the matters above in accordance with the Article 163 of the Articles of Associations.

Meetings of the Board shall be held at least four times a year and convened by the chairman of the Board before the publication of the Company's quarter, interim, and annual financial reports. Notice of the meeting shall be served on all of the Directors 10 working days before the date of the meeting.

Meetings of the Board shall be held only if more than half of the Directors (including the director who is appointed by the other director in writing as a proxy by the laws and the Article of Association) are present. Each Director shall have one vote. Where the numbers of votes cast for and against a resolution are equal, the chairman of the Board shall have an additional vote.

Supervisory Committee

The Company shall have a supervisory committee. The Directors, senior executive officers shall not act as Supervisors. The supervisory committee shall be composed of three Supervisors. The term of office of Supervisors shall be three years, renewable upon re-election and reappointment. The supervisory committee shall have one chairman. The election or removal of the chairman of the supervisory committee shall be made by the affirmative vote of more than two-thirds of the members of the supervisory committee. Resolutions of the supervisory committee shall be made by the affirmative vote of more than two-thirds of the members of the supervisory committee.

At least one-third of the Supervisors shall be the representatives of staff and workers of the Company. The representatives of shareholders as Supervisors and independent Supervisors shall be elected and replaced by shareholders' general meeting using cumulative voting; the representative of staff and workers of the Company as Supervisors shall be elected and replaced by the staff and workers of the Company democratically thereby.

The supervisory committee shall be accountable to the shareholders' general meeting and exercise the following functions and powers in accordance with law:

- (1) to examine the Company's financial situation;
- (2) to supervise the performance of the Directors and senior executive officers of their duties, and propose to remove the Directors, Supervisors and senior executive officers for violation of the applicable laws, regulations, the Articles of Association or the resolutions of the shareholders' general meeting;
- (3) to demand rectification from a Director and a senior executive officer when the acts of such persons is harmful to the Company's interest, and to report it to the shareholders' general meeting or governing authorities at the national level when necessary;
- (4) to verify the reports formulated by the Board from time to time and to submit comments in writing;
- (5) to propose to convene an interim shareholders' general meeting and, when the Board of Directors does not perform its duty to convene and preside over the shareholders' general meeting as stipulated in the PRC Company Law, to convene and preside over the shareholders' general meeting;
- (6) to make proposals to the shareholders' general meeting;
- (7) to initiate proceedings against a Director or a senior executive officer in accordance with Clause 152 of the PRC Company Law;
- (8) to attend meetings of the Board, and to make inquiries or suggestions on matters proposed in resolutions of the Board;
- (9) to check financial reports, operating results and profit distribution scheme, as well as other financial data to be submitted by the Board at the shareholders' general meeting and where anything doubtful is discovered, can on behalf of our Company appoint certified accountants and professional auditors to assist in reviewing these documents; and
- (10) to exercise other functions and powers specified in the Articles of Association.

Members of the supervisory committee shall be present at meetings of the Board. The Supervisors will monitor the affairs in relation to legality of the procedures in which the Board meetings were convened, absence of interested Directors from voting at relevant meetings, and on whether the content of Board resolution complies with law, the Articles of Associations and with the actual need of the Company and etc.

Manager of the Company

The Company shall have one Manager, who shall be appointed and dismissed by the Board. The Manager shall be accountable to the Board and exercise the following functions and powers:

- (1) to be in charge of the Company's production, operation and management, to organise the implementation of the resolutions of the Board and to report to the Board of Directors on work;
- (2) to organise the implementation of the Company's annual business plan and investment plan;
- (3) to draft plans for the establishment of the internal organisational structure of the Company;
- (4) to draft the Company's basic management system;
- (5) to formulate basic rules and regulations for the Company;
- (6) to propose the appointment or dismissal of the deputy Manager and Chief Financial Officer;
- (7) to appoint or dismiss management personnel other than those required to be appointed or dismissed by the Board;
- (8) to draft the plans for remuneration, benefits reward and punishment to the Company's staff and workers and to decide the appointment or dismissal of the Company's staff and workers;
- (9) to propose an interim Board meeting to be convened; and
- (10) to exercise other functions and powers conferred by the Articles of Association and the Board.

The Manager shall be present at meetings of the Board; the Manager shall have no voting rights at the meetings unless he is also a director.

Chairman of the Board

The chairman of the Board shall exercise the following functions and powers:

- (1) to preside the shareholders' meeting, convene and preside the meetings of the Board;
- (2) to supervise and inspect the implementation of the resolutions of the Board;
- (3) to sign the Stock, debentures and other valuable securities the Company;
- (4) to sign important documents of the Board and other documents which shall be signed by the legal representative of the Company;
- (5) to exercise the power of legal representative;

- (6) to exercise the special power of execution in relation to the affairs of the Company for the benefit of the Company according to law in the emergency circumstances of occurrence of extraordinarily serious natural disaster or other events of force majeure, and report to the Board and the shareholder's meeting afterwards; and
- (7) to exercise other functions and powers authorised by the Board.

In case where the chairman of the Board cannot perform the powers abovementioned, the chairman of the Board may designate such functions and powers to the vice chairman of the Board; in case where the vice chairman cannot or will not perform the powers, a director should be elected by more than half of all of the Directors to perform the powers.

Secretary of the Board

The secretary of the Board shall be a natural person who has the requisite professional knowledge and experience, and shall be appointed by the Board. The scope of responsibilities for the secretary of the Board include:

- (1) to organise and arrange the Board meetings and shareholders' general meeting, to prepare materials for the meetings and arrange affairs of the meeting; to be responsible for the minutes of the meetings, to ensure the correctness of the minutes and to keep the minutes and documents of the meeting; to keep positively informed about the execution of resolutions of the meetings; to report to and advise the Board on substantial issues raised during the execution; in the meantime, to ensure that the Company's documents and records are complete;
- (2) to ensure that the significant matters to be decided by the Board meetings will strictly follow the relevant procedures; to attend and organise the consultation and analysis of the matters to be decided by the Board meetings in accordance with the requirements of the meetings and to provide corresponding advices and suggestions; to undertake the daily works of the Board and of other relevant committees upon authorisation;
- (3) acting as a liaison among the Company, domestic and overseas regulatory bodies, to ensure the lawful preparation and submission by the Company of reports and documents as required by relevant authorities, and to arrange relevant departments within the Company to complete matters in respect to securities regulation;
- (4) to be responsible for the coordination and organisation of information disclosure; to establish and improve relevant system for information disclosure; to attend all of the relevant meetings of the Company involving information disclosure and to be promptly informed about the Company's significant business decisions and the relevant information;
- (5) to be responsible for the confidentiality of information sensitive to share price and to formulate a feasible confidentiality system and confidentiality measures; to adopt necessary measures to remedy any disclosure of the sensitive information to share price due to any reason, to make explanations and clarification immediately after such disclosure and give notice to domestic and overseas regulatory bodies;

- (6) to be responsible for the coordination and organisation of market promotion, to coordinate the reception of visitors, to manage the relationships with investors, to maintain connections with investors, intermediary bodies and news media, to be responsible for the coordination of answering public enquiries, to ensure that the investors can promptly obtain information disclosed by the Company; to organise and arrange promotion and publicity of the Company in overseas markets, to produce summary reports in respect of the market promotion, important visitors and other activities, and to organise the reporting of relevant affairs to domestic regulatory bodies;
- (7) to be responsible for the management and maintenance of the register of shareholders, the register of Directors, the number of shares held by the majority shareholders, the materials recording the information of Directors' shares, and a list of holders of the Company's issued and outstanding debentures, and to ensure that persons who are entitled to obtain the relevant records and documents of the Company can timely obtain such records and documents;
- (8) to assist Directors and Managers exercising their functions and powers to actually fulfil domestic and overseas laws and regulations, the Articles of Associations and other relevant rules; to be responsible to remind the Company after having known that the resolution made or expected to be made by the Company would breach relevant rules, and is entitled to report such breach as it is to the domestic and overseas regulatory bodies of securities;
- (9) to coordinate the supply of information and materials necessary for exercising the functions of supervision to the Company's supervisory committee and other bodies, to properly assist the investigation on the performance of duties in good faith owed by the Company's Chief Finance Officer, Directors and Managers; and
- (10) to exercise other functions and powers imposed by the Board of Directors or required by the domestic and overseas relevant laws and regulations and stock exchange on which the Company is listing.

Accounts and Audit

Appointment of accounting firms

The Company shall appoint independent accounting firms that are qualified under the relevant regulations of the PRC to audit the Company's annual financial reports and review other financial reports of the Company.

The accounting firms appointed by the Company shall hold office from the conclusion of the annual general meeting of shareholders to the conclusion of the next annual meeting of shareholders.

If there is any vacancy in the position of the accounting firms, the Board may, before the convening of the shareholders' general meeting, appoint an accounting firm(s) to fill that casual vacancy. But while any such vacancy continues, the accounting firms that currently assume the office, if any, may act.

The shareholders' general meeting may, by ordinary resolution, remove any accounting firm before the expiration of its office, notwithstanding the stipulations in the contract between the Company and the firm, but without prejudice to the relevant firm's right to claim, if any, for damages in respect of such removal.

The remuneration of accounting firms or the manner in which such firm is to be remunerated shall be determined by the shareholders' general meeting. For the accounting firm that is appointed by the Board, its remuneration shall be determined by the Board.

Change and removal of accounting firm

The Company's appointment of, removal of or non-reappointment of an accounting firm shall be determined by shareholders' general meetings and such decision shall be filed with the China securities regulatory authority.

Where it is proposed that any resolution be passed at a shareholders' general meeting concerning the appointment of an accounting firm, which is not an incumbent firm, to fill a casual vacancy in the office of the accounting firm, or reappointment of a retiring accounting firm which was appointed by the Board to fill a casual vacancy, or removal of the accounting firm before the expiration of its term of office, the following provisions shall be complied with:

Before the notice of the shareholders' general meeting has been sent out, a copy of the proposal in relation to the appointment or removal shall be delivered to the firm proposed to be appointed or proposing to leave its post or the firm which has left its post within the relevant accounting year; leaving includes leaving by removal, resignation and retirement.

If the firm leaving its post makes representations in writing and requests the Company to notify such representations to the shareholders, the Company shall adopt the following measures (unless the representations are received too late): (i) in any notice delivered for the purpose of making of the resolution, state the fact of the representations having been made by the firm leaving its post; and (ii) attach a copy of the representations to the notice and deliver it to the shareholders in the manner stipulated in the Articles of Association.

If the accounting firm's representations were not sent in accordance with the preceding paragraph, the relevant firm may require that such representations be read out at the shareholders' general meeting and may lodge further complaints.

An accounting firm which is leaving its post shall be entitled to attend the following meetings: (i) the shareholders' general meeting at which its term of office would otherwise have expired; (ii) any shareholders' general meeting at which it is proposed to fill the vacancy caused by its removal; and (iii) any shareholders' general meeting convened on its resignation. The accounting firm leaving its post is entitled to receive all notices of, and other communications relating to, any such meetings, and to speak at any such meeting in relation to matters concerning its role as the former accounting firm of the Company.

Resignation of accounting firm

Where the Company removes or does not reappoint an accounting firm, it shall give prior notice 30 days before to the accounting firm and that accounting firm is entitled to make representations and comments to the shareholders' general meeting. Where the accounting firm resigns its post, it shall make clear to the shareholders' general meeting whether there has been any impropriety.

Any accounting firm may resign its office by depositing at the Company's legal residence a resignation notice. That notice shall become effective on the date of such deposit or on such later date as may be stipulated in such notice. Such notice shall include the following representations:

- (1) a statement to the effect that there are no circumstances connected with its resignation which it considers should be brought to the notice of the shareholders or creditors of the Company; or
- (2) a statement of any such circumstances. The Company shall within 14 days after receiving of such notice send a copy of the notice to the relevant governing authority. If the notice contains a statement under subparagraph (2) of the preceding paragraph, a copy of such statement shall be placed at the Company for shareholders' inspection. The Company shall also send a copy of such statement by prepaid mail to every shareholder of the overseas-listed foreign-invested Shares at the address registered in the register of shareholders.

Where the accounting firm's notice of resignation contains a statement of any circumstances which should be brought to the notice of the shareholders or creditors of the Company, the accounting firm may require the Board to convene a shareholders' extraordinary general meeting for the purpose of giving an explanation of the circumstances connected with its resignation.

Dispute Resolution

Whenever any dispute or claim arise between holders of the overseas-listed foreign-invested Shares and the Company, or between such shareholders and the Company's Directors, Supervisors, Managers or other senior executive officers, or between such shareholders and shareholders of non-overseas-listed foreign-invested shares, based on the rights and obligations set out in the Articles of Association, PRC Company Law and other relevant laws and administrative regulations concerning the affairs of the Company, such disputes or claims shall be referred by the relevant parties to arbitration. Unless otherwise provided by laws or administrative regulations, the laws that apply to resolve the aforementioned disputes or claims shall be PRC laws.

Where the aforesaid dispute or claim is referred to arbitration, the entire claim or dispute shall be referred to arbitration, and all persons who have a cause of action based on the same facts or whose participation is necessary for the resolution of such dispute or claim, shall abide by the arbitration provided that such person is the Company or the Company's shareholder, Director, Supervisor, Manager or other senior executive officer. Disputes in relation to the identification of shareholders and disputes in relation to the share register need not be referred to arbitration.

A claimant may elect arbitration at either the China International Economic and Trade Arbitration Commission in accordance with its rules or the Hong Kong International Arbitration Centre in accordance with its Securities Arbitration Rules. Once a claimant refers a dispute or claim to arbitration, the other party must submit to the arbitral body elected by the claimant.

If a claimant elects arbitration at Hong Kong International Arbitration Centre, any party to the dispute or claim may apply for a hearing to take place in Shenzhen in accordance with the Securities Arbitration Rules of the Hong Kong International Arbitration Centre.

The award of an arbitration body shall be final and binding on all parties.

PRC JUDICIAL SYSTEM

Under the *PRC Constitutional Law* (《中華人民共和國憲法》) and the *Law of Organisation of the People's Courts* (《中華人民共和國人民法院組織法》), the judicial system in PRC is made up of the Supreme People's Court, the local people's courts, military courts and other special people's courts. The local people's courts are comprised of the basic people's courts, the intermediate people's courts and the higher people's courts. The basic people's courts are organised into civil, criminal, and administrative divisions. The intermediate people's courts are organised into divisions similar to those of the basic people's courts, and are further organised into other special divisions, such as the intellectual property division. The higher level people's courts supervise the basic and intermediate people's courts. The people's procuratorates also have the right to exercise legal supervision over the civil proceedings of people's courts of the same level and lower levels. The Supreme People's Court is the highest judicial body in the PRC. It supervises the administration of justice by all of the people's courts.

The people's courts employ a "second instance as final" appellate system. A party may appeal against a judgement or order of the people's court of first instance to the people's court at the next higher level. Second judgements or orders given at the next higher level are final. First judgements or orders of the Supreme People's Court are also final. If, however, the Supreme People's Court or a people's court at a higher level finds an error in a judgement or order which has been given in any people's court at a lower level, or the president of the people's court finds an error in a judgement or order, the case may then be retried according to the judicial supervision procedures.

The *Civil Procedure Law of the PRC* (《中華人民共和國民事訴訟法》) (the "PRC Civil Procedure Law"), which was adopted on 9 April 1991 and last amended on 31 August 2012, sets forth the criteria for instituting a civil action, the jurisdiction of the people's courts, the procedures to be followed for conducting a civil action and the procedures for enforcement of a civil judgement or order. All parties to a civil action conducted within the PRC must comply with the PRC Civil Procedure Law. Generally, a civil case is initially heard by a local court of the municipality or province in which the defendant resides. The parties to a contract may, by an express agreement, select a jurisdiction where civil actions may be brought, provided that the jurisdiction is either the plaintiff's or the defendant's place of residence, the place of execution or implementation of the contract or the object of the action. However, such selection cannot violate the stipulations of grade jurisdiction and exclusive jurisdiction in any case.

A foreign individual or enterprise generally has the same litigation rights and obligations as a citizen or legal person of the PRC. If a foreign country's judicial system limits the litigation rights of PRC citizens and enterprises, the PRC courts may apply the same limitations to the citizens and enterprises of that foreign country within the PRC. If any party to a civil action refuses to comply with a judgement or order made by a people's court or an award granted by an arbitration panel in the PRC, the aggrieved party may apply to the people's court to request for enforcement of the judgement, order or award. There are time limits imposed on the right to apply for such enforcement and the time limit is two year. If a person fails to satisfy a judgement made by the court within the stipulated time, the court will, upon application by either party, mandatorily enforce the judgement.

A party seeking to enforce a judgement or order of a people's court against a party who is not located within the PRC and does not own any property in the PRC, may apply to a foreign court with proper jurisdiction for recognition and enforcement of the judgement or order. A foreign judgement or

ruling may also be recognised and enforced by the people's court according to the PRC enforcement procedures if the PRC has entered into, or acceded to, an international treaty with the relevant foreign country, which provides for such recognition and enforcement, or if the judgement or ruling satisfies the court's examination according to the principle of reciprocity, unless the people's court finds that the recognition or enforcement of such judgement or ruling will result in a violation of the basic legal principles of the PRC, its sovereignty or security, or for reasons of social and public interests.

THE PRC COMPANY LAW, SPECIAL REGULATIONS AND MANDATORY PROVISIONS

On 29 December 1993, the Standing Committee of the Eighth NPC adopted the PRC Company Law (《中華人民共和國公司法》) which came into effect on 1 July 1994 and was amended for the first time on 25 December 1999, the second time on 28 August 2004 and the third time on 27 October 2005. The newly amended PRC Company Law has been promulgated and became effective from 1 January 2006.

On 4 July 1994, the Special Regulations (《國務院關於股份有限公司境外募集股份及上市的特別規定》) were passed at the Twenty-Second Standing Committee Meeting of the State Council, and they were promulgated and implemented on 4 August 1994. The Special Regulations are formulated according to the provisions of Sections 85 and 155 of the PRC Company Law (1993) in respect of the overseas share subscription and listing of joint stock limited companies. The Mandatory Provisions (《到境外上市公司章程必備條款》) were issued jointly by the Securities Commission and the State Economic Restructuring Commission on 27 August 1994, prescribing provisions which must be incorporated into the articles of association of joint stock limited companies to be listed overseas. Accordingly, the Mandatory Provisions have been incorporated in the Articles of Association (which are summarised in the appendix entitled "Appendix VI — Summary of the Articles of Association of Our Company" to this prospectus). References to a "company" are to a joint stock limited liability company established under the PRC Company Law with overseas listed foreign invested shares.

Copies of the Chinese text of the PRC Company Law, Special Regulations and the Mandatory Provisions together with copies of their unofficial English translations thereof are available for inspection as mentioned in the appendix entitled "Appendix IX — Documents Delivered to the Registrar of Companies and Available for Inspection" to this prospectus.

General

A "joint stock limited liability company" (hereinafter referred to as "company") is a corporate legal person incorporated under the PRC Company Law, whose registered capital is divided into shares of equal par value. The liability of its shareholders is limited to the extent of the shares held by them, and the liability of the company is limited to the full amount of all the assets owned by it.

A state-owned enterprise that is restructured into a company must comply with the conditions and requirements specified by law and administrative regulation, for the modification of its operation mechanisms, the systematic handling and evaluation of the company's assets and liabilities and the establishment of internal management organs.

A company must conduct its business in accordance with law and professional ethics.

Incorporation

A company may be incorporated by promotion or subscription.

A company may be incorporated by two to 200 promoters, but at least half of the promoters must reside in the PRC.

Companies incorporated by promotion are companies with the registered capital entirely subscribed for by the promoters. Where companies are incorporated by subscription, the promoters are required to subscribe for not less than 35% of the total number of shares of a company, and the remaining shares can be offered to the public or specific persons, unless otherwise required by law.

The PRC Company Law has provided that the minimum registered capital of a joint stock limited liability company is RMB5 million. For companies incorporated by promotion, the registered capital has to be the total capital subscribed for by all promoters as registered with the relevant Administration for Industry and Commerce; for companies established by public subscription, the registered capital is the amount of total paid-up capital as registered with the relevant administration bureau for industry and commerce.

Pursuant to the Securities Law (《中華人民共和國證券法》), the total capital of a company which proposes to apply for its shares to be listed on a stock exchange must not be less than RMB30 million.

The promoters shall convene an inaugural meeting within 30 days after the issued shares have been fully paid up, and shall give notice to all subscribers or make a public announcement of the date of the inaugural meeting 15 days before the meeting. The inaugural meeting may be convened only with the presence of shareholders holding shares representing more than 50% of the total issued shares of the company. At the inaugural meeting, matters including the adoption of draft articles of association proposed by the promoter(s) and the election of the board of directors and the supervisory committee of the company will be dealt with. All resolutions of the meeting require the approval of subscribers with more than half of the voting rights present at the meeting.

Within 30 days after the conclusion of the inaugural meeting, the board of directors shall apply to the registration authority for registration of the establishment of the company.

A company is formally established and has the status of a legal person after the approval for registration has been given by the relevant Administration for Industry and Commerce and a business licence has been issued.

A company's promoters shall individually and collectively be liable for: (i) the payment of all expenses and liabilities incurred in the incorporation process if the company cannot be incorporated; (ii) the repayment of subscription monies to the subscribers together with interest at bank rates for a deposit of the same term if the company cannot be incorporated; and (iii) damages suffered by the company as a result of the default of the promoters in the course of incorporation of the company.

Share Capital

The promoters of a company can make capital contributions in cash or in kind, that can be valued in currency and transferable according to law such as intellectual property rights or land use rights based on their appraised value provided that the amount of capital contribution in cash by all shareholders must not be less than 30% of a company's registered capital.

If capital contribution is made other than in cash, valuation and verification of the property contributed must be carried out and converted into shares.

A company may issue registered or bearer share. However, shares issued to promoter(s) or legal person(s) shall be in the form of registered share and shall be registered under the name(s) of such promoter(s) or legal person(s) and shall not be registered under a different name or the name of a representative.

The Special Regulations and the Mandatory Provisions provide that shares issued to foreign investors and listed overseas shall be issued in registered form and shall be denominated in Renminbi and subscribed for in foreign currency.

Under the Special Regulations and the Mandatory Provisions, shares issued to foreign investors and investors from the territories of Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan and listed overseas are known as overseas listed foreign invested shares, and those shares issued to investors within the PRC other than the territories specified above are known as Domestic Shares.

A company may offer its shares to the public overseas with approval by the securities administration department of the State Council. Specific measures shall be specifically formulated by the State Council. Under the Special Regulations, upon approval of CSRC, a company may agree, in the underwriting agreement in respect of an issue of overseas listed foreign invested shares, to retain not more than 15% of the aggregate number of overseas listed foreign invested shares proposed to be issued after accounting for the number of underwritten shares.

The share offering price may be equal to or greater than par value, but shall not be less than par value.

The transfer of shares by shareholders should be conducted via the legally established stock exchange or in accordance with other methods as stipulated by the State Council. Transfer of registered shares by a shareholder must be made by means of an endorsement or by other means stipulated by laws or by administrative regulations. Bearer shares are transferred by delivery of the share certificates to the transferee.

Shares held by a promoter of a company shall not be transferred within one year after the date of the company's incorporation. Shares issued by a company prior to the public offer of its shares shall not be transferred within one year from the date of listing of the shares of the company on a stock exchange. Directors, supervisors and senior management of a company shall not transfer over 25% of the total shares held by each of them in the company each year during their term of office and shall not

transfer any share of the company held by each of them within one year after the listing date. There is no restriction under the PRC Company Law as to the percentage of shareholding a single shareholder may hold in a company.

Transfers of shares may not be entered in the register of shareholders within 20 days before the date of a shareholders' meeting or within five days before the record date set for the purpose of distribution of dividends.

Increase in Capital

Under the PRC Company Law, an increase in the capital of a company by means of an issue of new shares must be approved by shareholders in general meeting.

Save for the above-mentioned shareholder approval requirement, for a public offering of new shares, the Securities Law provides that the company shall: (i) have a sound organisational structure with satisfactory operating record; (ii) have the capability of continuing profitability and a healthy financial position; (iii) have no false statements and other material breaches in the financial and accounting documents of the last three years; (iv) fulfil other conditions required by the securities administration department of the State Council as approved by the State Council.

Public offer requires the approval of the securities administration department of the State Council.

After payment in full for the new shares issued, a company must change its registration with the relevant state bureau for the administration for industry and commerce and issue a public notice accordingly.

Reduction of Share Capital

Subject to the minimum registered capital requirements, a company may reduce its registered capital in accordance with the following procedures prescribed by the PRC Company Law:

- (i) the company shall prepare a balance sheet and an inventory of the assets;
- (ii) the reduction of registered capital must be approved by shareholders in general meeting;
- (iii) the company shall inform its creditors of the reduction in capital within ten days and publish an announcement of the reduction in the newspaper within 30 days after the resolution approving the reduction has been passed;
- (iv) the creditors of the company may within the statutory prescribed time limit require the company to pay its debts or provide guarantees covering the debts; and
- (v) the company must apply to the relevant administration bureau for industry and commerce for registration of the reduction in registered capital.

Repurchase of Shares

A company may not purchase its own shares other than for the purpose of:

- (i) reducing its capital by cancelling its shares or merging with another company holding its shares;
- (ii) granting shares as a reward to the staff of the company; or
- (iii) purchasing the company's own shares upon request of its shareholders who vote against the resolution regarding the merger or division of the company in a general meeting.

The shares of the company to be repurchased by itself as a reward to its staff shall not exceed 5% of the total number of its issued shares. Any funds for such purpose shall be paid out of after-tax profits of the company, and the shares so purchased shall be transferred to the company's staff within a year. The Mandatory Provisions provide that upon obtaining approvals in accordance with the articles of association of the company and from the relevant supervisory authorities, a company may repurchase its issued shares for the foregoing purposes by way of a general offer to its shareholders or purchase on a stock exchange or an off-market contract.

Transfer of Shares

Shares may be transferred in accordance with the relevant laws and regulations.

Shareholders

Shareholders have such rights and obligations as set forth in the articles of association of the company. The articles of association of a company are binding on each shareholder.

Under the PRC Company Law and the Mandatory Provisions, the rights of a shareholder include:

- (i) to attend in person or appoint a proxy to attend shareholders' general meetings, and to vote in respect of the number of shares held;
- (ii) to transfer his shares in accordance with applicable laws and regulations and the articles of association of the company;
- (iii) to inspect the company's articles of association, shareholders' registers, records of debentures, minutes of shareholders' general meetings, board resolutions, supervisors resolutions, financial and accounting reports and put forward proposals or raise questions about the business operations of the company;
- (iv) if a resolution adopted by a shareholders' general meeting or the board of directors violates any law or administrative regulations or infringes the lawful rights and interests of shareholders, to institute an action in the people's court demanding that the illegal infringing action be stopped;
- (v) to receive dividends in respect of the number of shares held;

- (vi) to obtain surplus assets of the company upon its termination in proportion to his or her shareholding; to claim against other shareholders who abuse their shareholders' rights for the damages; and
- (vii) any other shareholders' rights specified in the company's articles of association.

The obligations of a shareholder include the obligation to abide by the company's articles of association, to pay the subscription monies in respect of the shares subscribed for, to be liable for the company's debts and liabilities to the extent of the amount of subscription monies agreed to be paid in respect of the shares taken up by him/her, not to abuse shareholders' right to damage the interests of the company or other shareholders of the company; not to abuse the independent status of the company as a legal person and the limited liability to damage the interests of the creditors of the company and any other shareholders' obligation specified in the company's articles of association.

Shareholders' General Meetings

The shareholders' general meeting is the organ of authority of the company, which exercises its powers in accordance with the PRC Company Law.

The shareholders' general meeting exercises the following principal powers:

- (i) to decide on the company's operational policies and investment plans;
- (ii) to elect or remove the directors and supervisors who are not representatives of the employees and decide on matters relating to the remuneration of directors and supervisors;
- (iii) to consider and approve reports of the board of directors;
- (iv) to consider and approve reports of the supervisory committee or the supervisors;
- (v) to consider and approve the company's proposed annual financial budget and financial accounts;
- (vi) to consider and approve the company's proposals for profit distribution and for recovery of losses;
- (vii) to decide on any increase or reduction in the company's registered capital;
- (viii) to decide on the issue of bonds by the company;
- (ix) to decide on issues such as merger, division, dissolution and liquidation of the company and other matters;
- (x) to amend the articles of association of the company; and
- (xi) other powers specified in the articles of association of the company.

Shareholders' general meeting is required to be held once every year. An extraordinary shareholders' general meeting is required to be held within two months after the occurrence of any of the following circumstances:

- (i) the number of directors is less than the number provided for in the PRC Company Law or less than two-thirds of the number specified in the company's articles of association;
- (ii) the losses of the company which are not made up reach one-third of the company's total paid up share capital;
- (iii) a request by a shareholder that holds, or by shareholders that hold in aggregate, 10% or more of the company's shares;
- (iv) when deemed necessary by the board of directors;
- (v) when the supervisory committee proposes convening it; or
- (vi) other matters required by the company's articles of association.

Shareholders' general meetings shall be convened by the board of directors, and presided over by the chairman of the board of directors.

Notice of the Shareholders' general meeting shall be given to all shareholders 20 days before the meeting under the PRC Company Law and 45 days under the Special Regulations and the Mandatory Provisions, stating the matters to be considered at the meeting. Under the Special Regulations and the Mandatory Provisions, shareholders wishing to attend are required to give to the company written confirmation of their attendance 20 days prior to the meeting. Under the Special Regulations, at an annual general meeting of a company, shareholders holding 5% or more of the voting rights in the company are entitled to propose to the company in writing new resolutions to be considered at that meeting, which if within the powers of a shareholders' general meeting, are required to be added to the agenda of that meeting.

Shareholders present at a shareholders' general meeting have one vote for each share they hold, but the company shall have no vote for any of its own shares the company holds.

Resolutions proposed at the shareholders' general meeting shall be adopted by more than half of the votes voting rights by shareholders present in person (including those represented by proxies) at the meeting, with the exception of matters relating to merger, division, dissolution, increase or reduction in registered capital, change in the form of the company or amendments to the articles of association which shall be adopted by shareholders with two-thirds or more of the voting rights cast by shareholders present (including those represented by proxies) at the meeting.

Shareholders may entrust a proxy to attend shareholders' general meetings on his or her behalf by a power of attorney which sets out the scope of exercising the voting rights.

There is no specific provision in the PRC Company Law regarding the number of shareholders constituting a quorum in a shareholders' meeting. However, the Special Regulations and the Mandatory Provisions provide that a company's annual general meeting may be convened when replies to the notice of that meeting from shareholders holding shares representing 50% or more of the voting rights in the company have been received 20 days before the proposed date, or if that 50% level is not achieved, the company shall within five days of the last day for receipt of the replies notify shareholders by public announcement of the matters to be considered at the meeting and the date and place of the meeting and the annual general meeting may be held thereafter. The Mandatory Provisions require class meetings to be held in the event of a variation or derogation of the class rights of a class. Holders of domestic invested shares and holders of overseas listed foreign invested shares are deemed to be different classes of shareholders for this purpose.

Directors

A company shall have a board of directors, which shall consist of five to 19 members and there can be staff representatives of our Company. Under the PRC Company Law, each term of office of a director shall not exceed three years. A director may serve consecutive terms if re-elected.

Meetings of the board of directors shall be convened at least twice a year. Notice of meeting shall be given to all directors and supervisors at least ten days before the meeting. The board of directors may provide for a different method of giving notice and notice period for convening an extraordinary meeting of the board of directors.

Under the PRC Company Law, the board of directors exercises the following powers:

- (i) to convene the shareholders' general meeting and report on its work to the shareholders;
- (ii) to implement the resolution of the shareholders' general meeting;
- (iii) to decide on the company's business plans and investment plans;
- (iv) to formulate the company's proposed annual financial budget and final accounts;
- (v) to formulate the company's proposals for profit distribution and for recovery of losses;
- (vi) to formulate proposals for the increase or reduction of the company's registered capital and the issue of corporate bonds;
- (vii) to prepare plans for the merger, division or dissolution of the company;
- (viii) to decide on the company's internal management structure;
- (ix) to appoint or dismiss the company's general manager, and based on the general manager's recommendation, to appoint or dismiss deputy general managers and financial officers of the company and to decide on their remuneration;
- (x) to formulate the company's basic management system; and

(xi) any other power given under the articles of association of the company.

In addition, the Mandatory Provisions provide that the board of directors is also responsible for formulating the proposals for amendment of the articles of association of a company.

Meetings of the board of directors shall be held only if more than half of the directors are present. Resolutions of the board of directors require the approval of more than half of all directors.

If a director is unable to attend a board meeting, he may appoint another director by a written power of attorney specifying the scope of the authorisation to attend the meeting on his behalf.

If a resolution of the board of directors violates the laws, administrative regulations or the company's articles of association as a result of which the company sustains serious losses, the directors participating in the resolution are liable to compensate the company. However, if it can be proven that a director expressly objected to the resolution when the resolution was voted on, and that such objections were recorded in the minutes of the meeting, such director may be relieved of that liability.

Under the PRC Company Law, the following persons may not serve as a director of a company:

- (i) persons without civil capacity or with restricted civil capacity;
- (ii) persons who have committed the offence of corruption, bribery, taking of property, misappropriation of property or destruction of the social economic order, and have been sentenced to criminal punishment, where less than five years have elapsed since the date of completion of the sentence; or persons who have been deprived of their political rights due to criminal offence, where less than five years have elapsed since the date of the completion of implementation of this deprivation;
- (iii) persons who are former directors, factory managers or managers of a company or enterprise which has become bankrupt and been liquidated due to mismanagement and who are personally liable for the bankruptcy of such company or enterprise, where less than three years have elapsed since the date of the completion of the bankruptcy and liquidation of the company or enterprise;
- (iv) persons who were legal representatives of a company or enterprise which had its business licence revoked due to violation of the law and who are personally liable, where less than three years have elapsed since the date of the revocation of the business licence; or
- (v) persons who have a relatively large amount of debt due and outstanding.
- (vi) Other circumstances under which a person is disqualified from acting as a director of a company are set out in the Mandatory Provisions (which have been incorporated in the Articles of Association, a summary of which is set out in the appendix entitled "Appendix VI — Summary of the Articles of Association of Our Company" to this prospectus).

The board of directors shall appoint a chairman, who is elected with approval of more than half of all the directors. The chairman of the board of directors exercises, among others, the following powers:

- (i) to preside over shareholders' general meetings and convene and preside over meetings of the board of directors; and
- (ii) to check on the implementation of the resolutions of the board of directors.

The legal representative of a company, in accordance with the company's articles of association, may be the chairman, any executive director or the manager.

The Special Regulations provide that a company's directors, supervisors, managers and other officers bear fiduciary duties and the duty to act diligently. They are required to faithfully perform their duties, protect the interests of the company and not to use their positions for their own benefit. The Mandatory Provisions (which have been incorporated into the Articles of Association, a summary of which is set out in the appendix entitled "Appendix VI — Summary of the Articles of Association of Our Company" to this prospectus) contain further elaborations of such duties.

Supervisors

A company shall have a supervisory committee composed of not less than three members. Each term of office of a supervisor is three years and he may serve consecutive terms if re-elected.

The supervisory committee is made up of shareholders representatives and an appropriate proportion of the company's staff representatives; and the percentage of the number of the company's staff representatives shall not be less than one-third. Directors and senior management shall not act as supervisors.

Requirements in relation to the power of the supervisory committee under the PRC Company Law are as follows:

- (i) to examine the company's financial affairs;
- (ii) to supervise the directors and senior management in their performance of their duties and to propose the removal of any director or senior management who violates the laws, regulations, articles of association or shareholders' resolution;
- (iii) to require any director or senior management whose act is detrimental to the company's interests to rectify such act;
- (iv) to propose the convening of extraordinary shareholders' general meetings and, in the event that the board of directors fails to perform the duties of convening and presiding shareholders' meetings to convene and preside over shareholders' meetings;
- (v) to propose any bills to shareholders' general meetings;
- (vi) to commence any action against any directors or senior management; and

(vii) other powers specified in the company's articles of association.

The circumstances under which a person is disqualified from being a director of a company described above apply mutates mutandis to supervisors of a company.

The Special Regulations provide that a company's directors and supervisors shall have fiduciary duties. They are required to faithfully perform their duties, protect the interest of the company and not to use their positions for their own benefit.

Managers and Senior Officers

A company shall have a manager who shall be appointed or removed by the board of directors. The manager is accountable to the board of directors and may exercise the following powers:

- (i) in charge of the production, operation and management of the company and arrange for the implementation of resolutions of the board of directors;
- (ii) arrange for the implementation of the company's annual business and investment plans;
- (iii) formulate plans for the establishment of the company's internal management structure;
- (iv) formulate the basic administration system of the company;
- (v) formulate the company's internal rules;
- (vi) recommend the appointment and dismissal of deputy managers and any financial officer and appoint or dismiss other administration officers (other than those required to be appointed or dismissed by the board of directors);
- (vii) attend board meetings as a non-voting attendant; and
- (viii) other powers conferred by the board of directors or the company's articles of association.

The Special Regulations and the Mandatory Provisions provide that the other senior management of a company includes the financial officer, secretary of the board of directors and other executives as specified in the articles of association of the company.

The circumstances under which a person is disqualified from being a director of a company described above apply mutatis mutandis to managers and officers of the company.

The articles of association of a company shall have binding effect on the shareholders, directors, supervisors, managers and other senior management of the company. Such persons shall be entitled to exercise their rights, apply for arbitration and issue legal proceedings according to the articles of association of the company. The provisions of the Mandatory Provisions regarding the senior management of a company have been incorporated in the Articles of Association, a summary of which is set out in the appendix entitled "Appendix VI — Summary of the Articles of Association of Our Company" to this prospectus.

Duties of Directors, Supervisors, Managers and Senior Officers

A director, supervisor, manager and other senior officer of a company are required under the PRC Company Law to comply with the relevant laws, regulations and the company's articles of association, carry out their duties honestly and protect the interests of the company. A director, supervisor, manager and other senior officer of a company is also under a duty of confidentiality to the company and is prohibited from divulging secret information of the company save as permitted by the relevant laws and regulations or by the shareholders.

A director, supervisor, manager and other senior officer who contravenes any law, regulation or the company's articles of association in the performance of his duties which results in any loss to the company shall be personally liable to the company.

The Special Regulations and the Mandatory Provisions provide that a director, supervisor, manager and other senior officer of a company owe fiduciary duties to the company and are required to perform their duties faithfully and to protect the interests of the company and not to make use of their positions in the company for their own benefit.

Finance and Accounting

A company shall establish its financial and accounting systems according to laws, administrative regulations and the regulations of the responsible financial department of the State Council and at the end of each financial year, prepare a financial report which shall be audited and verified as provided by law.

A company shall deposit its financial statements at the company for inspection by the shareholders at least 20 days before the convening of the annual general meeting of shareholders. A company incorporated by public subscription must publish its financial statements.

The common reserve of a company comprises the statutory surplus reserve, the discretionary common reserve and the capital common reserve.

When distributing each year's after-tax profits, the company shall set aside 10% of its after-tax profits for the company's statutory surplus reserve (except where the reserve has reached 50% of the company's registered capital). After a company has made an allocation to its statutory common reserve from its after-tax profit, subject to a resolution of the shareholders' general meeting, the company may make an allocation to a discretionary common reserve.

When the company's statutory surplus reserve is not sufficient to make up for the company's losses of the previous year, current year profits shall be used to make good the losses before allocations are set aside for the statutory surplus reserve.

After the company has made good its losses and make allocations to its statutory surplus reserve the remaining profits could be available for distribution to shareholder in proportion to the number of shares held by the shareholders except as otherwise provided in the articles of association of such company limited by shares.

The capital common reserve of a company is made up of the premium over the nominal value of the shares of the company on issue and other amounts required by the relevant governmental authority to be treated as the capital common reserve.

The common reserve of a company shall be applied for the following purposes:

- (i) to make up the company's losses other than the capital common reserve;
- (ii) to expand the business operations of the company; and
- (iii) to increase the registered capital of the company by the issue of new shares to shareholders in proportion to their existing shareholdings in the company or by increasing the par value of the shares currently held by the shareholders provided that if the statutory surplus reserve is converted into registered capital, the balance of the statutory surplus reserve after such conversion shall not be less than 25% of the registered capital on the company.

Appointment and Retirement of Auditors

The Special Regulations require a company to employ an independent PRC qualified accounting firm to audit the company's annual report and review and check other financial reports.

The auditors are to be appointed for a term commencing from the close of an annual general meeting and ending at the close of the next following annual general meeting.

If a company removes or ceases to continue to appoint the auditors, it is required by the Special Regulations to give prior notice to the auditors and the auditors are entitled to make representations before the shareholders in general meeting. The appointment, removal or non re-appointment of auditors shall be decided by the shareholders at shareholders' general meetings and shall be filed with the CSRC for record.

Distribution of Profits

The PRC Company law provides that a company is restricted from distributing profits before accumulated losses have been made up and statutory common reserve have been drawn. The Special Regulations provide that the dividends and other distributions to be paid to holders of overseas listed foreign invested shares shall be declared and calculated in Renminbi and paid in foreign currency. Under the Mandatory Provisions, the payment of foreign currency to shareholders shall be made through a receiving agent.

Amendments to Articles of Association

Any amendments to the company's articles of association must be made in accordance with the procedures set forth in the company's articles of association. Any amendment of provisions incorporated in the articles of association in connection with the Mandatory Provisions will only be effective after approval by the companies approval department authorised by the State Council and the CSRC. In relation to matters involving the company's registration, its registration with the companies registration authority must also be changed.

Dissolution and Liquidation

A company may apply for the declaration of insolvency by reason of its inability to pay debts as they fall due. After the people's court has made a declaration of the company's insolvency, the shareholders, the relevant authorities and the relevant professionals shall form a liquidation committee to conduct the liquidation of the company.

Under the PRC Company Law, a company shall be dissolved in any of the following events:

- (i) the term of its operations set down in its articles of association has expired or events of dissolution specified in its articles of association have occurred;
- (ii) the shareholders in general meeting have resolved to dissolve the company;
- (iii) the company is dissolved by reason of its merger or demerger;
- (iv) the company is subject to the revocation of business licence, a closure order or dismissal in accordance with laws; or
- (v) in the event that the company encounters substantial difficulties in its operation and management and its continuance shall cause a significant loss, in the interest of shareholders, and where this cannot be resolved through other means, shareholders who hold more than 10% of the total shareholders' voting rights of the company may present a petition to the people's court for the dissolution of the company.

Where the company is dissolved in the circumstances described in (i), (ii), (iv) and (v) above, a liquidation committee must be formed within 15 days after the occurrence of the cause of dissolution so as to carry out liquidation. Members of the liquidation committee shall be composed of the directors or any other people as determined by the shareholders' meeting.

If a liquidation committee is not established within the stipulated period, the company's creditors can apply to the people's court for its establishment.

The liquidation committee shall notify the company's creditors within ten days after its establishment, and issue a public notice in the newspapers within 60 days. A creditor shall lodge his claim with the liquidation committee within 30 days after receiving notification, or within 45 days of the public notice if he did not receive any notification. The liquidation committee shall exercise the following powers during the liquidation period:

- (i) to handle the company's assets and to prepare a balance sheet and an inventory of the assets;
- (ii) to notify creditors or issue public notices;
- (iii) to deal with and settle any outstanding business of the company;
- (iv) to pay any tax overdue;
- (v) to settle the company's financial claims and liabilities;

- (vi) to handle the surplus assets of the company after its debts have been paid off; and
- (vii) to represent the company in civil lawsuits.

If the company's assets are sufficient to meet its liabilities, they shall be applied towards the payment of the liquidation expenses, wages owed to the employees and labour insurance expenses, tax overdue and debts of the company. Any surplus assets shall be distributed to the shareholders of the company in proportion to the number of shares held by them.

During the liquidation period, a company shall not engage in operating activities unrelated to the liquidation.

If the liquidation committee becomes aware that the company does not have sufficient assets to meet its liabilities, it must immediately apply to the people's court for a declaration for bankruptcy. Following such declaration, the liquidation committee shall hand over all affairs of the liquidation to the people's court.

Upon completion of the liquidation, the liquidation committee shall submit a liquidation report to the shareholders' general meeting or the relevant supervisory department for verification. Thereafter, the report shall be submitted to the companies registration authority in order to cancel the company's registration, and a public notice of its termination shall be issued.

Members of the liquidation committee are required to discharge their duties honestly and in compliance with relevant laws. A member of liquidation committee is liable to indemnify the company and its creditors in respect of any loss arising from his willful or material default.

Overseas Listing

The shares of a company shall only be listed overseas after obtaining approval from the securities regulatory authority of the State Council and the listing must be arranged in accordance with procedures specified by the State Council.

According to the Special Regulations, a company's plan to issue overseas listed foreign invested shares and domestic invested shares which has been approved by the Securities Commission may be implemented by the board of directors of a company by way of separate issues, within 15 months after approval is obtained from the CSRC.

Loss of Share Certificates

A shareholder may apply, in accordance with the relevant provision set out in the PRC Civil Procedure Law, to a people's court in the event that share certificates in registered form are either stolen or lost, for a declaration that such certificates will no longer be valid. After such a declaration has been obtained, the shareholder may apply to the company for the issue of replacement certificates.

The Mandatory Provisions provide for a separate procedure regarding loss of H Share certificates (which has been incorporated in the Articles of Association, a summary of which is set out in "Appendix VI — Summary of the Articles of Association of Our Company").

Suspension and Termination of Listing

The PRC Company Law has deleted provisions governing suspension and termination of listing. The new Securities Law has been amended as follows:

The trading of shares of a company on a stock exchange may be suspended if so decided by the securities administration department of the State Council (the new Securities Law has renamed this as the Securities Exchange) under one of the following circumstances:

- (i) the registered capital or shareholding distribution no longer comply with the necessary requirements for a listed company;
- (ii) the company failed to make public its financial position in accordance with the requirements or there is false information in the company's financial report with the possibility of misleading investors;
- (iii) the company has committed a major breach of the law;
- (iv) the company has incurred losses for three consecutive years; or
- (v) other circumstances as required by the listing rules of the relevant stock exchange(s).

Under the Securities Law, in the event that the conditions for listing are not satisfied within the period stipulated by the relevant stock exchange in the case described in (i) above, or the company has refused to rectify the situation in the case described in (ii) above, or the company fails to become profitable in the next subsequent year in the case described in (iv) above, the relevant stock exchange shall have the right to terminate the listing of the shares of the company.

Merger and Demerger

Companies may merge through merger by absorption or through the establishment of a newly merged entity. If it merges by absorption, the company which is absorbed shall be dissolved. If it merges by forming a new corporation, both companies will be dissolved.

SECURITIES LAW AND REGULATIONS

The PRC has promulgated a number of regulations that relate to the issue and trading of the Shares and disclosure of information by us. In October 1992, the State Council established the Securities Committee and the CSRC. The Securities Committee was responsible for co-ordinating the drafting of securities regulations, formulating securities-related policies, planning the development of securities markets, directing, coordinating and supervising all securities-related institutions in the PRC and administering the CSRC. The CSRC was the regulatory body of the Securities Committee and responsible for the drafting of regulatory provisions of securities markets, supervising securities companies, regulating public offers of securities by PRC companies in the PRC or overseas, regulating the trading of securities, compiling securities-related statistics and undertaking research and analysis. In

1998, the State Council dissolved the Securities Committee and assigned its function to the CSRC. The CSRC is also responsible for the regulation and supervision of the national stocks and futures market according to laws, regulations and authorisations.

The Securities Law took effect on 1 July 1999 and was revised for the first time on 28 August 2004 and the second time on 27 October 2005. This is the first national securities law in the PRC, and it is divided into 12 chapters and 240 articles regulating, among other things, the issue and trading of securities, takeovers by listed companies, securities exchanges, securities companies and the duties and responsibilities of the State Council's securities regulatory authorities. The Securities Law comprehensively regulates activities in the PRC securities market. Article 238 of the Securities Law provides that a PRC company must obtain prior approval from the State Council's regulatory authorities to list its shares outside the PRC. Article 239 of the Securities Law provides that specific measures in respect of shares of companies in the PRC which are to be subscribed and traded in foreign currencies shall be separately formulated by the State Council. Currently, the issue and trading of foreign issued shares (including H Shares) are still mainly governed by the rules and regulations promulgated by the State Council and the CSRC.

ARBITRATION AND ENFORCEMENT OF ARBITRAL AWARDS

The *Arbitration Law of the PRC* (《中華人民共和國仲裁法》) (the "Arbitration Law") was passed by the Standing Committee of the NPC on 31 August 1994 and became effective on 1 September 1995. It is applicable to contract disputes and other property disputes between natural person, legal person and other organisations where the parties have entered into a written agreement to refer the matter to arbitration before an arbitration committee constituted in accordance with the Arbitration Law. Under the Arbitration Law, an arbitration committee may, before the promulgation by the PRC Arbitration Association of arbitration regulations, formulate interim arbitration rules in accordance with the Arbitration Law and the PRC Civil Procedure Law. Where the parties have by agreement provided arbitration as the method for dispute resolution, the people's court will refuse to handle the case.

The Hong Kong Listing Rules and the Mandatory Provisions require an arbitration clause to be included in the Articles of Association and, in the case of the Hong Kong Listing Rules, also in contracts with each of the Directors and Supervisors, to the effect that whenever any disputes or claims arise between holders of the H Shares and us; holders of the H Shares and the Directors, Supervisors, manager or other officers; or holders of the Shares, in respect of any disputes or claims in relation to our affairs or as a result of any rights or obligations arising under the Articles of Association, the PRC Company Law or other relevant laws and administrative regulations, such disputes or claims shall be referred to arbitration.

Where a dispute or claim of rights referred to in the preceding paragraph is referred to arbitration, the entire claim or dispute must be referred to arbitration, and all persons who have a cause of action based on the same facts giving rise to the dispute or claim or whose participation is necessary for the resolution of such dispute or claim, if they are shareholders, directors, supervisors, managers or officers of us, shall subject to the arbitration. Disputes in respect of who is the shareholder and disputes in relation to our register of shareholders need not be resolved by arbitration.

A claimant may elect for arbitration to be carried out at either the China International Economic and Trade Arbitration Commission (“CIETAC”) in accordance with its rules or the Hong Kong International Arbitration Centre (“HKIAC”) in accordance with its securities arbitration rules. Once a claimant refers a dispute or claim to arbitration, the other party must submit to the arbitral body elected by the claimant. If the claimant elects for arbitration to be carried out at the HKIAC, any party to the dispute or claim may apply for a hearing to take place in Shenzhen in accordance with the securities arbitration rules of the HKIAC.

Under the Arbitration Law and the PRC Civil Procedure Law, an arbitral award is final and binding on the parties. If a party fails to comply with an award, the other party to the award may apply to the people’s court for enforcement. A people’s court may refuse to enforce an arbitral award made by an arbitration commission if there is any procedural or membership irregularity specified by law or the award exceeds the scope of the arbitration agreement or is outside the jurisdiction of the arbitration commission.

A party seeking to enforce an arbitral award of PRC arbitration panel against a party who, or whose property, is not within the PRC, may apply to a foreign court with jurisdiction over the case for enforcement. Similarly, an arbitral award made by a foreign arbitration body may be recognised and enforced by the PRC courts in accordance with the principles of reciprocity or any international treaty concluded or acceded to by the PRC. The PRC acceded to the Convention on the Recognition and Enforcement of Foreign Arbitral Awards (《承認和執行外國仲裁裁決公約》) (簡稱《紐約公約》) (the “New York Convention”) adopted on 10 June 1958 pursuant to a resolution of the Standing Committee of the NPC passed on 2 December 1986. The New York Convention provides that all arbitral awards made in a state which is a party to the New York Convention shall be recognised and enforced by other parties to the New York Convention, subject to their right to refuse enforcement under certain circumstances, including where the enforcement of the arbitral award is against the public policy of the State to which the application for enforcement is made. It was declared by the Standing Committee of the NPC simultaneously with the accession of the PRC that (i) the PRC will only recognise and enforce foreign arbitral awards on the principle of reciprocity and (ii) the PRC will only apply the New York Convention in disputes considered under PRC laws to arise from contractual and non-contractual mercantile legal relations.

In June 1999, an arrangement was made between Hong Kong and the Supreme People’s Court for the mutual enforcement of arbitral awards. This new arrangement was approved by the Supreme People’s Court and the Hong Kong Legislative Council, and became effective on 1 February 2000. The arrangement is made in accordance with the spirit of the New York Convention. Under the arrangement, awards made by PRC arbitral authorities pursuant to the Arbitration Law can be enforced in Hong Kong. Hong Kong arbitration awards pursuant to the Arbitration Ordinance of Hong Kong are also enforceable in the PRC.

HONG KONG LAWS AND REGULATIONS

Summary of Material Differences Between Hong Kong and PRC Company Law

The Hong Kong law applicable to a company having share capital incorporated in Hong Kong is based on the Companies Ordinance and is supplemented by common law. Our Company, which is a joint stock limited liability company established in the PRC, is governed by the PRC Company Law and

all other rules and regulations promulgated pursuant to the PRC Company Law applicable to a joint stock limited liability company established in the PRC issuing overseas listed foreign shares to be listed on the Hong Kong Stock Exchange.

Set out below is a summary of the material differences between the Companies Ordinance applicable to a company incorporated in Hong Kong and the PRC Company Law applicable to a joint stock limited liability company incorporated and existing under the PRC Company Law. This summary is, however, not intended to be an exhaustive comparison:

(i) Corporate existence

Under Companies Ordinance, a company having share capital is incorporated by the Registrar of Companies in Hong Kong issuing a certificate of incorporation and upon its incorporation, a company will acquire an independent corporate existence. A company may be incorporated as a public company or a private company.

Under the PRC Company Law, a joint stock limited liability company may be incorporated by either the promotion method or the subscription method. A joint stock limited liability company must have a minimum registered capital of RMB5 million, or higher as may otherwise be required by the laws and regulations. Hong Kong law does not prescribe any minimum capital requirements for a Hong Kong company. Under the PRC Company Law, the monetary contributions by all the shareholders must not be less than 30% of the registered capital. There is no such restriction on a Hong Kong company under Hong Kong law.

(ii) Share capital

Under Hong Kong law, the authorised share capital of a Hong Kong company is the amount of share capital which the company is authorised to issue and a company is not bound to issue the entire amount of its authorised share capital. For a Hong Kong company, the authorised share capital may be larger than the issued share capital. Hence, the directors of a Hong Kong company may, with the prior approval of the shareholders, if required, cause the company to issue new shares. The PRC Company Law does not recognise the concept of authorised share capital. The registered capital of a joint stock limited liability company is the amount of the issued share capital. Any increase in registered capital must be approved by the shareholders in general meeting and by the relevant governmental and regulatory authorities in the PRC.

Under the PRC Company Law, a company which is authorised by the relevant securities administration authority to list its shares on a stock exchange must have a registered capital of not less than RMB30 million. Hong Kong law does not prescribe any minimum capital requirements for companies incorporated in Hong Kong.

Under the PRC Company Law, the shares may be subscribed for in the form of money or non-monetary assets (other than assets not entitled to be used as capital contributions under relevant laws and administrative regulations). For non-monetary assets to be used as capital contributions, appraisals and verification must be carried out to ensure no overvaluation or under-valuation of the assets. The monetary contribution shall not be less than 30% of a joint stock limited liability company's registered capital. There is no such restriction on a Hong Kong company under Hong Kong law.

(iii) Restrictions on shareholding and transfer of shares

Under PRC law, the domestic shares in the share capital of a joint stock limited liability company which are denominated and subscribed for in Renminbi may only be subscribed or traded by the State, PRC legal and natural persons. The overseas listed foreign shares issued by a joint stock limited liability company which are denominated in Renminbi and subscribed for in a currency other than Renminbi may only be subscribed and traded by investors from Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan or any country and territory outside the PRC.

Under the PRC Company Law, shares in a joint stock limited liability company held by its promoters cannot be transferred within one year after the date of establishment of the company. Shares in issue prior to the company's public offering cannot be transferred within one year from the listing date of the shares on the Hong Kong Stock Exchange. Shares in a joint stock limited liability company held by its directors, supervisors and managers and transferred each year during their term of office shall not exceed 25% of the total shares they held in the company, and the shares they held in the company cannot be transferred within one year from the listing date of the shares, and also cannot be transferred within half a year after the said personnel has left office. The articles of association may set other restrictive requirements on the transfer of the company's shares held by its directors, supervisors and officers. There are no such restrictions on shareholdings and transfers of shares under Hong Kong law apart from the six-month lock-up on our Company's issue of shares and the 12-month lock-up on Controlling Shareholders' disposal of shares, as illustrated by the undertakings given by our Company to the Hong Kong Stock Exchange as described in the section entitled "Underwriting" in this prospectus.

(iv) Financial assistance for acquisition of shares

The PRC Company Law does not contain any provision prohibiting or restricting a joint stock limited liability company or its subsidiaries from providing financial assistance for the purpose of an acquisition of its own or its holding company's shares. The Mandatory Provisions contain certain restrictions on a company and its subsidiaries providing such financial assistance similar to those under Companies Ordinance.

(v) Variation of class rights

The PRC Company Law makes no specific provision relating to variation of class rights. However, the PRC Company Law states that the State Council can promulgate regulations relating to other kinds of shares. The Mandatory Provisions contain elaborate provisions relating to the circumstances which are deemed to be variation of class rights and the approval procedures required to be followed in respect thereof. These provisions have been incorporated in the Articles of Association, which are summarised in the appendix entitled "Appendix VI — Summary of the Articles of Association of Our Company" to this prospectus. Under Companies Ordinance, no rights attached to any class of shares can be varied except (i) with the approval of a special resolution of the holders of the relevant class at a separate meeting, (ii) with the consent in writing of the holders of three-fourths in nominal value of the issued shares of the class in question, (iii) by agreement of all the members of the company or (iv) if there are provisions in the articles of association relating to the variation of those rights, then in accordance with those provisions.

Our Company (as required by the Hong Kong Listing Rules and the Mandatory Provisions) have adopted the Articles of Association provisions protecting class rights in a similar manner to those found in Hong Kong law. Holders of overseas listed shares and domestic listed shares are defined in the Articles of Association as different classes, except in the case of (i) where our Company issues, upon the approval by special resolution of the Shareholders in general meeting, either separately or concurrently once every 12 months, not more than 20% of each of our existing issued Domestic Shares or overseas-listed foreign-invested Shares; (ii) where our Company completes, with 15 months from the date on which approval is given by the securities regulatory authorities of the State Council, our plan (made at the time of our establishment) to issue Domestic Shares and overseas-listed foreign-invested Shares; and (iii) where the Shares registered on our domestic Share register may be transferred to overseas investors, and such transferred Shares may be listed or traded on an overseas stock exchange, subject to the approval of the securities regulatory authorities of the State Council; (iv) where the Shareholders of the Company have their non-overseas-listed shares listed and traded on an overseas stock exchange, subject to the approval of the securities regulatory authorities of the State Council.

(vi) Directors

The PRC Company Law, unlike Companies Ordinance, does not contain any requirements relating to the declaration of interests in material contracts, restrictions on interested directors being counted towards the quorum of and voting at a meeting of the board of directors at which a transaction in which a director is interested is being considered, restrictions on directors' authority in making major dispositions, restrictions on companies providing certain benefits such as loans to directors and guarantees in respect of directors' liability and prohibition against compensation for loss of office without shareholders' approval. The Mandatory Provisions, however, contain requirements and restrictions in relation to the foregoing matters similar to those applicable under Hong Kong law.

(vii) Supervisory committee

Under the PRC Company Law, the board of directors and managers of a joint stock limited liability company is subject to the supervision and inspection of a supervisory committee but there is no mandatory requirement for the establishment of a supervisory committee for a company incorporated in Hong Kong. The Mandatory Provisions provide that each supervisor owes a duty, in the exercise of his powers, to act in good faith and honestly in what he considers to be in the best interests of the company and to exercise the care, diligence and skill that a reasonably prudent person would exercise under comparable circumstances.

(viii) Derivative action by shareholders

Hong Kong law permits shareholders, with the permission of the court, to start a derivative action on behalf of a company against directors who have committed a wrong which is actionable by our Company. The PRC Company Law gives shareholders of a joint stock limited liability company the right that in the event that the directors and senior managers violate their fiduciary obligations to a company, shareholders individually or jointly holding over 1% of the shares in the company for more than 180 days consecutively may request in writing the supervisory committee to initiate proceedings in the people's court. In the event that the supervisory committee violates their fiduciary obligations to a company, the above said shareholders may request in writing the board of directors to initiate proceedings in the people's court. Upon receipt of such request in writing from the shareholders, if the

supervisory committee or the board of directors refuse to initiate such proceedings, or has not initiated proceedings within 30 days upon receipt of the request, or if under urgent situations, failure of initiating immediate proceeding may cause irremediable damages to the company, the above said shareholders shall for the benefit of the company's interests, have the right to initiate proceedings directly to the court in its own name.

The Mandatory Provisions further provide remedies to the company against directors, supervisors and officers in breach of their duties to the company. In addition, every director and supervisor of a joint stock limited liability company applying for a listing of its foreign shares on the Hong Kong Stock Exchange is required to give an undertaking in favour of the company as agent for each shareholder to comply with the company's articles of association. This allows shareholders to act against directors and supervisors in default.

(ix) Protection of minorities

Under Hong Kong law, a shareholder who complains that the affairs of a company incorporated in Hong Kong are conducted in a manner unfairly prejudicial to his interests may petition to court to either wind up the company or make an appropriate order regulating the affairs of the company. In addition, on the application of a specified number of members, the Financial Secretary may appoint inspectors who are given extensive statutory powers to investigate the affairs of a company incorporated in Hong Kong. The PRC Company Law does not contain similar safeguards. The Mandatory Provisions, however, contain provisions to the effect that a controlling shareholder may not exercise its voting rights in a manner prejudicial to the interests of the shareholders generally or of some part of the shareholders of a company to relieve a director or supervisor of his duty to act honestly in the best interests of the company or to approve the expropriation by a director or supervisor of the company's assets or the individual rights of other shareholders.

(x) Notice of shareholders' meetings

Under the PRC Company Law, notice of a shareholders' general meeting must be given 20 days before the meeting, while notice of an extraordinary meeting must be given 15 days before the meeting or, in the case of a company having bearer shares, a public announcement of a shareholders' general meeting must be made 30 days prior to it being held. Under the Special Regulations and the Mandatory Provisions, 45 days' written notice must be given to all shareholders and shareholders who wish to attend the meeting must reply in writing 20 days before the date of the meeting. For a company incorporated in Hong Kong, the minimum notice periods of a general meeting convened for considering an ordinary resolution and a special resolution are 14 days and 21 days, respectively; and the notice period for an annual general meeting is 21 days.

(xi) Quorum for shareholders' meetings

Under Hong Kong law, the quorum for a general meeting is two members unless the articles of association of the company otherwise provide. For one member companies, one member will be a quorum. The PRC Company Law does not specify any quorum requirement for shareholders' general meeting but the Special Regulations and the Mandatory Provisions provide that a company's general meeting can be convened when replies to the notice of that meeting have been received from shareholders whose shares represent 50% of the voting rights in the company at least 20 days before the

proposed date of the meeting. If that 50% level is not achieved, the company shall within five days notify shareholders by public announcement and the shareholders' general meeting may be held thereafter.

(xii) Voting

Under Hong Kong law, an ordinary resolution is passed by a simple majority of votes cast by members present in person or by proxy at a general meeting and a special resolution is passed by a majority of not less than three-fourths of votes cast by members present in person or by proxy at a general meeting. Under the PRC Company Law, the passing of any resolution requires more than one half of the votes cast by shareholders present in person or by proxy at a shareholders' general meeting except in cases of proposed amendment to the articles of association, increase or reduction of share capital, and merger, demerger or dissolution of a joint stock limited liability company or changes to the company status, which require two-thirds or more of votes cast by shareholders present at a shareholders' general meeting.

(xiii) Financial disclosure

A joint stock limited liability company is required under the PRC Company Law to make available at its office for inspection by shareholders its annual balance sheet, profit and loss account, changes in financial position and other relevant annexures 20 days before an annual general meeting. In addition, a company established by the public subscription method under the PRC Company Law must publish its financial situation. The annual balance sheet has to be verified by registered accountants. The Companies Ordinance requires a company to send to every shareholder a copy of its balance sheet, auditors' report and directors' report which are to be tabled before the company in its annual general meeting not less than 21 days before such meeting.

A joint stock limited liability company is required under the PRC law to prepare its financial statements in accordance with the PRC accounting standards. The Mandatory Provisions require that the company must, in addition to preparing accounts according to PRC GAAP, have its accounts prepared and audited in accordance with IFRS or Hong Kong accounting standards and its financial statements must also contain a statement of the financial effect of the material differences (if any) from the financial statements prepared in accordance with PRC GAAP.

The Special Regulations require that there should not be any inconsistency between the information disclosed within and outside the PRC and that, to the extent that there are differences in the information disclosed in accordance with the relevant PRC and overseas laws, regulations and requirements of the relevant stock exchanges, such differences should also be disclosed simultaneously.

(xiv) Information on directors and shareholders

The PRC Company Law gives shareholders the right to inspect the articles of association, minutes of the shareholders' general meetings and financial and accounting reports. Under the Articles of Association, shareholders have the right to inspect and copy (at reasonable charges) certain information on shareholders and on directors similar to that available to shareholders of Hong Kong companies under Hong Kong law.

(xv) Receiving agent

Under both the PRC and Hong Kong law, dividends once declared become debts payable to shareholders. The limitation period for debt recovery action under Hong Kong law is six years while that under the PRC law is two years. The Mandatory Provisions require the appointment of a trust company registered under the Hong Kong Trustee Ordinance (Chapter 29 of the Laws of Hong Kong) as a receiving agent to receive on behalf of holders of foreign shares dividends declared and all other monies owed by a joint stock limited liability company in respect of such foreign shares.

(xvi) Corporate reorganisation

Corporate reorganisation involving a company incorporated in Hong Kong may be effected in a number of ways, such as a transfer of the whole or part of the business or property of the company in the course of being wound up voluntarily to another company pursuant to section 237 of the Companies Ordinance or a compromise or arrangement between the company and its creditors or between the company and its members pursuant to section 166 of the Companies Ordinance which requires the sanction of the court. Under PRC law, the merger, demerger, dissolution or change to the status of a joint stock limited liability company has to be approved by shareholders in general meeting.

(xvii) Arbitration of disputes

In Hong Kong, disputes between shareholders and a company incorporated in Hong Kong or its directors may be resolved through the courts. The Mandatory Provisions provide that such disputes should be submitted to arbitration at either the HKIAC or the CIETAC, at the claimant's choice.

(xviii) Mandatory transfers

Under the PRC Company Law, a joint stock limited liability company is required to make transfers equivalent to certain prescribed percentages of its after tax profit to the statutory common reserve fund. There are no such requirements under Hong Kong law.

(xix) Remedies of a company

Under the PRC Company Law, if a director, supervisor or manager in carrying out his duties infringes any law, administrative regulation or the articles of association of a company, which results in damage to the company, that director, supervisor or manager should be responsible to the company for such damages. In addition, in compliance with the Mandatory Provisions, the Articles of Association set out remedies to our Company similar to those available under Hong Kong law (including recovery of profits made by a director, supervisor or officer).

(xx) Dividends

The articles of association of a company empower the company to withhold, and pay to the relevant tax authorities, any tax payable under PRC law on any dividends or other distributions payable to a shareholder. Under Hong Kong law, the limitation period for an action to recover a debt (including

the recovery of dividends) is six years, whereas under PRC laws, the relevant limitation period is two years. A company shall not exercise its powers to forfeit any unclaimed dividend in respect of its listed foreign shares until after the expiry of the applicable limitation period.

(xxi) Fiduciary duties

In Hong Kong, there is the common law concept of the fiduciary duty of directors. Under the PRC Company Law and the Special Regulations, directors, supervisors, officers, and managers owe a fiduciary duty towards a company and are not permitted to engage in any activities which compete with or damage the interests of the company.

(xxii) Closure of register of shareholders

The Companies Ordinance requires that the register of shareholders of a company must not generally be closed for the registration of transfers of shares for more than 30 days (extendable to 60 days in certain circumstances) in a year, whereas the articles of association of a company provide, as required by the PRC Company Law and the Mandatory Provisions, that share transfers may not be registered within 30 days before the date of a shareholders' meeting or within five days before the record date set for the purpose of distribution of dividends.

Hong Kong Listing Rules

The Hong Kong Listing Rules provide additional requirements which apply to an issuer which is incorporated in the PRC as a joint stock limited liability company and seeks a primary listing or whose primary listing is on the Hong Kong Stock Exchange. Set out below is a summary of such principal additional requirements which apply to our Company:

(i) Compliance Adviser

A company seeking listing on the Hong Kong Stock Exchange is required to appoint and retain a compliance adviser acceptable to the Hong Kong Stock Exchange for the period from its listing date up to the date of sending of annual report to the shareholders for the first full year's financial results immediately after the listing, to provide the company with professional advice on continuous compliance with the Hong Kong Listing Rules and all other applicable laws, regulations, rules, codes and guidelines.

If the Hong Kong Stock Exchange is not satisfied that the compliance adviser is fulfilling its responsibilities adequately, it may require the company to terminate the compliance adviser's appointment and appoint a replacement.

The compliance adviser must keep the company informed on a timely basis of changes in the Hong Kong Listing Rules and any new or amended law, regulation or code in Hong Kong applicable to the company. It must act as the company's principal channel of communication with the Hong Kong Stock Exchange if the authorised representatives of the company are expected to be frequently outside Hong Kong.

(ii) Accountants' report

An accountants' report for a PRC issuer will not normally be regarded as acceptable by the Hong Kong Stock Exchange unless the relevant accounts have been audited to a standard comparable to that required in Hong Kong. Such report will normally be required to conform to either Hong Kong or international standards on auditing or China auditing standards.

(iii) Process agent

Our Company is required to appoint and maintain a person authorised to accept service of process and notices on its behalf in Hong Kong throughout the period during which its securities are listed on the Hong Kong Stock Exchange and must notify the Hong Kong Stock Exchange of his appointment, the termination of his appointment and his contact particulars.

(iv) Public shareholdings

If at any time there are existing issued securities of a PRC issuer other than foreign shares which are listed on the Hong Kong Stock Exchange, the Hong Kong Listing Rules require that the aggregate amount of H Shares and other securities held by the public must constitute not less than 25% of the PRC issuer's issued share capital and that the class of securities for which listing is sought must not be less than 15% of the issuer's total issued share capital, having an expected market capitalisation at the time of listing of not less than HK\$50 million.

The Hong Kong Stock Exchange may, at its discretion, accept a lower percentage of between 15% and 25% in the case of issuers with an expected market capitalisation at the time of listing of over HK\$10,000 million.

(v) Independent non-executive directors and supervisors

The independent non-executive directors of a PRC issuer are required to demonstrate an acceptable standard of competence and adequate commercial or professional expertise to ensure that the interests of the general body of shareholders will be adequately represented. The supervisors of a PRC issuer must have the character, expertise and integrity and be able to demonstrate a standard of competence commensurate with their position as supervisors.

(vi) Restrictions on purchase and subscription of its own securities

Subject to governmental approvals and the provisions of the Articles of Association, our Company may repurchase our own H Shares on the Hong Kong Stock Exchange in accordance with the provisions of the Hong Kong Listing Rules. Approval by way of special resolution of the holders of Domestic Shares and the holders of H Shares at separate class meetings conducted in accordance with the Articles of Association is required for share repurchases. In seeking approvals, our Company is required to provide information on any proposed or actual purchases of all or any of our equity securities, whether or not listed or traded on the Hong Kong Stock Exchange. The Directors must also state the consequences of any purchases which will arise under either or both of the Codes on Takeovers and Mergers and any similar PRC law of which they are aware, if any. Any general mandate given to the Directors to repurchase H Shares must not exceed 10% of the total amount of existing issued H Shares.

(vii) Mandatory Provisions

With a view to increasing the level of protection afforded to investors, the Hong Kong Stock Exchange requires the incorporation, in the articles of association of a PRC company whose primary listing is on the Hong Kong Stock Exchange, of the Mandatory Provisions and provisions relating to the change, removal and resignation of auditors, class meetings and the conduct of the supervisory committee of the company. Such provisions have been incorporated into the Articles of Association, a summary of which is set out in the appendix entitled “Appendix VI — Summary of the Articles of Association of Our Company” to this prospectus.

(viii) Redeemable Shares

Our Company must not issue any redeemable Shares unless the Hong Kong Stock Exchange is satisfied that the relative rights of the holders of the H Shares are adequately protected.

(ix) Pre-emptive rights

Except in the circumstances mentioned below, the Directors are required to obtain the approval by a special resolution of Shareholders in general meeting, and the approvals by special resolutions of the holders of Domestic Shares and H Shares (each being otherwise entitled to vote at general meetings) at separate class meetings conducted in accordance with the Articles of Association, prior to authorising, allotting, issuing or granting shares or securities convertible into shares, or options, warrants or similar rights to subscribe for any shares or such convertible securities.

No such approval will be required under the Hong Kong Listing Rules, but only to the extent that, the existing Shareholders of our Company have by special resolution in general meeting given a mandate to the Directors, either unconditionally or subject to such terms and conditions as may be specified in the resolution, to authorise, allot or issue, either separately or concurrently once every 12 months, not more than 20% of the existing Domestic Shares and H Shares as at the date of the passing of the relevant special resolution or of such Shares that are part of our plan at the time of our establishment to issue Domestic Shares and H Shares and which plan is implemented within 15 months from the date of approval by the CSRC.

(x) Supervisors

Our Company is required to adopt rules governing dealings by the Supervisors in securities of our Company in terms no less exacting than those of the model code (set out in Appendix 10 to the Hong Kong Listing Rules) issued by the Hong Kong Stock Exchange.

Our Company is required to obtain the approval of the Shareholders in a general meeting (at which the relevant Supervisor and his associates shall not vote on the matter) prior to our Company or any of our subsidiaries entering into a service contract of the following nature with a Supervisor or proposed Supervisor of our Company or our subsidiaries: (i) the contract is for a duration that may exceed three years; or (ii) the contract expressly requires our Company to give more than one year’s notice or to pay compensation or make other payments equivalent to more than one year’s emoluments.

The remuneration and appraisal committee of our Company or an independent board committee must form a view in respect of service contracts that require Shareholders' approval and advise Shareholders (other than shareholders with a material interest in the service contracts and their associates) as to whether the terms are fair and reasonable, advise whether such contracts are in the interests of our Company and the Shareholders as a whole and advise Shareholders on how to vote.

(xi) Amendment to the Articles of Association

Our Company is required not to permit or cause any amendment to be made to the Articles of Association which would cause the same to cease to comply with the mandatory provisions of the Hong Kong Listing Rules relating to such Articles of Association.

(xii) Documents for inspection

Our Company is required to make available at a place in Hong Kong for inspection by the public and shareholders free of charge, and for copying by Shareholders at reasonable charges of the following:

- a complete duplicate register of Shareholders;
- a report showing the state of the issued share capital of our Company;
- our Company's latest audited financial statements and the reports of the Directors, auditors and Supervisors (if any) thereon;
- special resolutions of our Company;
- reports showing the number and nominal value of securities repurchased by our Company since the end of the last financial year, the aggregate amount paid for such securities and the maximum and minimum prices paid in respect of each class of securities repurchased (with a breakdown between Domestic Shares and H Shares);
- a copy of the latest annual return filed with SAIC or other competent PRC authority; and
- for Shareholders only, copies of minutes of meetings of Shareholders.

(xiii) Receiving agents

Our Company is required to appoint one or more receiving agents in Hong Kong and pay to such agent(s) dividends declared and other monies owing in respect of the H Shares to be held, pending payment, in trust for the holders of such H Shares.

(xiv) Statements in listing documents and share certificates

Our Company is required to ensure that all of our listing documents and share certificates include the statements stipulated below and to instruct and cause each of our Share registrars not to register the subscription, purchase or transfer of any of our Shares in the name of any particular holder unless and until such holder delivers to such Share registrar a signed form in respect of such Shares bearing statements to the following effect that the acquirer of the Shares:

- agrees with our Company and each Shareholder of our Company, and our Company agrees with each Shareholder of our Company, to observe and comply with the PRC Company Law, the Special Regulations, the Articles of Association and other relevant laws and administrative regulations;
- agrees with our Company, each Shareholder, Director, Supervisor, manager and officer of our Company, and our Company acting for itself and for each Director, Supervisor, manager and officer of our Company agrees with each Shareholder, to refer all differences and claims arising from the Articles of Association or any rights or obligations conferred or imposed by the PRC Company Law or other relevant laws and administrative regulations concerning the affairs of our Company to arbitration in accordance with the Articles of Association, and any reference to arbitration shall be deemed to authorise the arbitration tribunal to conduct hearings in open session and to publish its award. Such arbitration shall be final and conclusive;
- agrees with our Company and each Shareholder of our Company that the H Shares are freely transferable by the holder thereof; and
- authorises our Company to enter into a contract on his behalf with each Director and officer of our Company whereby each such Director and officer undertakes to observe and comply with his obligation to Shareholders as stipulated in the Articles of Association.

(xv) Compliance with the PRC Company Law, the Special Regulations and the Articles of Association

Our Company is required to observe and comply with the PRC Company Law, the Special Regulations and the Articles of Association.

(xvi) Contract between our Company and its Directors, officers and Supervisors

Our Company is required to enter into a contract in writing with every Director and officer containing at least the following provisions:

- an undertaking by the Director or officer to our Company to observe and comply with the PRC Company law, the Special Regulations, the Articles of Association, the Codes on Takeovers and Mergers and Share Repurchases and an agreement that our Company shall have the remedies provided in the Articles of Association and that neither the contract nor his office is capable of assignment;

- an undertaking by the Director or officer to our Company acting as agent for each Shareholder to observe and comply with his obligations to Shareholders as stipulated in the Articles of Association;
- an arbitration clause which provides that whenever any differences or claims arise from that contract, the Articles of Association or any rights or obligations conferred or imposed by the PRC Company Law or other relevant law and administrative regulations concerning the affairs of our Company between our Company and the Directors or officers and between a holder of H Shares and a Director or officer of our Company, such differences or claims will be referred to arbitration at either the CIETAC in accordance with its rules or the HKIAC in accordance with its securities arbitration rules, at the election of the claimant and that once a claimant refers a dispute or claim to arbitration, the other party must submit to the arbitral body elected by the claimant. Such arbitration will be final and conclusive;
- if the party seeking arbitration elects to arbitrate the dispute or claim at HKIAC, then either party may apply to have such arbitration conducted in Shenzhen according to the securities arbitration rules of HKIAC;
- PRC laws shall govern the arbitration of disputes or claims referred to above, unless otherwise provided by law or administrative regulations;
- the award of the arbitral body is final and shall be binding on the parties thereto;
- the agreement to arbitrate is made by the Director or officer with our Company on our own behalf and on behalf of each Shareholder; and
- any reference to arbitration shall be deemed to authorise the arbitral tribunal to conduct hearings in open session and to publish its award.

Our Company is also required to enter into a contract in writing with every Supervisor containing statements in substantially the same terms.

(xvii) Subsequent listing

Our Company must not apply for the listing of any of the H Shares on a PRC stock exchange unless the Hong Kong Stock Exchange is satisfied that the relative rights of the holders of foreign Shares are adequately protected.

(xviii) English translation

All notices or other documents required under chapter 13 of the Hong Kong Listing Rules to be sent by our Company to the Hong Kong Stock Exchange are required to be in the English language, or accompanied by a certified English translation.

(xix) General

If any change in the PRC law or market practices materially alters the validity or accuracy of any of the statements in Rule 19A.01 of the Hong Kong Listing Rules, then the Hong Kong Stock Exchange may impose additional requirements or make listing of the equity securities of a PRC issuer, including our Company, subject to special conditions as the Hong Kong Stock Exchange considers appropriate. Whether or not any such changes in the PRC law or market practices occur, the Hong Kong Stock Exchange retains its general power under the Hong Kong Listing Rules to impose additional requirements and make special conditions in respect of the Listing.

Other Legal and Regulatory Provisions

Upon Listing, the provisions of the SFO, the Codes on Takeovers and Mergers and Share Repurchases and such other relevant ordinances and regulations as may be applicable to companies listed on the Hong Kong Stock Exchange will apply to our Company.

Securities arbitration rules

The Articles of Association provide that certain claims arising from the Articles of Association or the PRC Company Law shall be arbitrated at either the CIETAC or the HKIAC in accordance with their respective rules. The securities arbitration rules of the HKIAC contain provisions allowing an arbitral tribunal to conduct a hearing in Shenzhen for cases in the following circumstances. Where any party applies for a hearing to take place in Shenzhen, the tribunal shall, where satisfied that such application is based on bona fide grounds, order the hearing to take place in Shenzhen conditional upon all parties including witnesses and the arbitrators being permitted to enter Shenzhen for the purpose of the hearing. Where a party (other than a PRC party) or any of its witnesses or any arbitrator is not permitted to enter Shenzhen, then the tribunal shall order that the hearing be conducted in any practicable manner, including the use of telecommunications. For the purpose of the securities arbitration rules, a PRC party means a party domiciled in the PRC.

PRC LEGAL MATTERS

Our PRC legal adviser, Fujian Junli Law Firm, has sent to us a legal opinion dated 30 December 2013 which includes a statement to the effect that the description of PRC laws and regulations as contained in this prospectus is true and correct in all material respects. This legal opinion is available for inspection as referred to in the section entitled “Documents delivered to the Registrar of Companies in Hong Kong Available for Inspection” in Appendix IX to this prospectus.

Any person wishing to have detailed advice on PRC law and the laws of any jurisdiction is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT OUR COMPANY**1. Incorporation of our Company**

Our Company was established in the PRC as a limited liability company on 14 October 2004 and was converted to a joint stock limited liability company on 22 January 2008. Our Company has established its principal place of business in Hong Kong and has been registered as a non-Hong Kong company under Part XI of the Companies Ordinance on 7 November 2013. In connection with such registration, our Company has appointed Mr. Au Yeung Ho Yin as the authorised representative of our Company for the acceptance of service of process and notices on behalf of our Company in Hong Kong.

As our Company is incorporated in the PRC, its operation, corporate structure and Articles are subject to the laws and regulations of the PRC. A summary of various provisions of our Company's Articles and certain relevant aspects of the laws and regulations of the PRC is set out in Appendix VI and VII to this prospectus.

2. Changes in the share capital

- (a) The registered capital of Quanzhou City Nuoqi as at the date of its establishment was RMB750,000, all of which were fully paid up.
- (b) On 7 August 2006, the registered capital of Quanzhou City Nuoqi was increased to RMB8 million.
- (c) On 30 November 2007, the registered capital of Quanzhou City Nuoqi was increased to RMB60 million.
- (d) On 14 January 2008, Mr. Ding Canyang transferred 7.00% of the equity interest in Quanzhou City Nuoqi to Mr. Xu Mingqing (an independent party).
- (e) On 22 January 2008, Quanzhou City Nuoqi was converted into a joint stock limited liability company and its registered share capital was RMB60 million divided into 60,000,000 shares of RMB1.00 each.
- (f) On 19 November 2009, Mr. Xu Mingqing transferred (i) 2.4 million shares in our Company to Mr. Qian Mingfei (an independent party); (ii) 1.8 million shares in our Company to Mr. Wang Yi (an independent party).
- (g) On 15 December 2009, the registered share capital of our Company was increased to RMB67 million as a result of issuance of 7,000,000 shares by way of private issue.
- (h) On 16 November 2011, the registered share capital of our Company was increased to RMB75 million as a result of issuance of 8,000,000 shares by way of private issue.
- (i) On 26 March 2012, the registered share capital of our Company was increased to RMB90 million by way of the conversion of capital reserve on the basis of every 10 shares converted into 12 shares to all the then Shareholders.

- (j) On 27 May 2013, Mr. Yang Jianhui transferred all his equity interest in our Company, representing approximately 4.66% of the total registered capital of our Company, to Mr. Ding Canyang. And on the same day, Mr. Ding Canyang transferred approximately 2.61% of the equity interest in our Company to Ju Teng Investment (an independent institutional investor).
- (k) Pursuant to the resolutions in writing of all the Shareholders passed on 24 June 2013 which was subject to the approval by CSRC (and was subsequently obtained on 9 December 2013), the registered share capital of our Company will be subdivided in such manner that every existing share of RMB1.00 each will be subdivided into five Shares of RMB0.20 each. As a result, subject to the success of the Listing, the registered share capital of our Company will be RMB90 million divided into 450 million Shares of RMB0.20 each.
- (l) Immediately upon completion of the Global Offering, the registered share capital of our Company will be RMB120.0 million, made up of 450,000,000 Domestic Shares and 150,000,000 H Shares, with nominal value of RMB0.20 each, assuming the Over-allotment Option is not exercised.
- (m) Immediately upon completion of the Global Offering, the registered share capital of our Company will be RMB124.5 million, made up of 450,000,000 Domestic Shares and 172,500,000 H Shares, with nominal value of RMB0.20 each, assuming the Over-allotment Option is exercised in full.
- (n) Save as aforesaid and as mentioned in the sections headed “Resolutions passed at our extraordinary Shareholders’ meetings held on 24 June, 9 July and 13 November 2013” and “Resolutions passed at our extraordinary Shareholders’ meeting held on 16 December 2013” in this Appendix, and the section headed “Share Capital” in this prospectus, there has been no alteration in the share capital of our Company since incorporation.

3. Resolutions passed at our extraordinary Shareholders’ meetings held on 24 June, 9 July and 13 November 2013

On 24 June, 9 July and 13 November 2013, the following resolutions, among others, were passed by all of the then Shareholders:

- (a) the Articles were conditionally adopted, which shall become effective on the Hong Kong Listing Date;
- (b) subject to the approval by CSRC, the registered share capital of our Company were subdivided in such manner that every existing Share of RMB1.00 each was to be subdivided into five Shares of RMB0.20 each;
- (c) the issue by our company of 150,000,000 H Shares, with a nominal value of RMB0.20 each (assuming the Over-allotment Option is not exercised) and the issue by our Company of 172,500,000 H Shares, with a nominal value of RMB0.20 each (assuming the Over-allotment Option is exercised) were approved; and
- (d) the Board was authorised to handle all matters relating to, among other things, the issue of the H Shares and the Listing.

4. Resolutions passed at our extraordinary Shareholders' meeting held on 16 December 2013

On 16 December 2013, the following resolution, among others, was passed by all of the then Shareholders:

- (a) upon completion of the Global Offering, and subject to compliance with the applicable PRC laws, the Articles, the requirements under the Hong Kong Listing Rules and the approvals by CSRC and the Hong Kong Stock Exchange (if applicable), the Board was granted a general mandate to allot and issue Domestic Shares and/or H Shares at any time within a period up to the date of the conclusion of the next annual general meeting of the Shareholders or the date on which our Shareholders pass a special resolution to revoke or change such mandate, whichever is earlier, upon such terms and conditions and for such purposes and to such persons as the Board may in their absolute discretion deem fit, and to make necessary amendments to the Articles, provided that, the number of Domestic Shares and/or H Shares to be issued shall not respectively exceed 20% of the number of Domestic Shares and/or H Shares in issue as at the Listing Date.

5. Our principal subsidiaries

Our principal subsidiaries are set out in the Accountants' Report, the text of which is set out in Appendix I to this prospectus.

6. Changes in the share capital of our Company's subsidiaries

There has been no alteration in the share capital of the subsidiaries of our Company within the two years preceding the date of this prospectus.

C. FURTHER INFORMATION ABOUT OUR BUSINESS**1. Summary of material contracts**

The following contracts (not being contracts in the ordinary course of business of our Group) have been entered into by members of our Group within the two years preceding the date of this prospectus and are or may be material:

- (a) the Hong Kong Underwriting Agreement;
- (b) a corporate investor agreement dated 16 December 2013 entered into between Joy Business Investments Limited, Evergreen International Holdings Limited, the Sole Global Coordinator and our Company, details of which are disclosed in the section headed "Cornerstone Investor" in this prospectus;

- (c) an indemnity agreement dated 16 December 2013 entered into between our Controlling Shareholders and our Company under which our Controlling Shareholders provided certain indemnities in favour of our Group containing, among others, the indemnities referred to the paragraph headed “Estate duty, tax and other indemnity” in the section headed “Other Information” in this Appendix;
- (d) a deed of non-competition dated 16 December 2013 entered into between our Controlling Shareholders and our Company, details of which are disclosed in the section headed “Relationship with our Controlling Shareholders” in this prospectus; and
- (e) non-competition agreements (避免同業競爭協議) dated 24 June 2013 entered into between each of our Directors and Supervisors and our Company, details of which are disclosed in the section headed “Further information about our Directors and substantial Shareholders — Particulars of service agreements” in this Appendix.

2. Intellectual property rights

- (a) As at the Latest Practicable Date, we had registered the following trademarks which are material in relation to our business:

Trademark	Class	Place of registration	Trademark number	Name of registrant	Date of registration	Expiry date
诺奇	35	Hong Kong	301524005	The Company	18/01/2010	17/01/2020
N&O	18	Hong Kong	301538613	The Company	05/02/2010	04/02/2020
N&O	25	Hong Kong	301538587	The Company	05/02/2010	04/02/2020
NUOQI	18	PRC	6713870	The Company	07/08/2010	06/08/2020
诺奇	25	PRC	6713869	The Company	21/01/2011	20/01/2021
NUOQI	18	PRC	5125405	The Company	28/06/2009	27/06/2019
NUOQI	35	PRC	3512703	The Company	28/11/2004	27/11/2014
NUOQI	25	PRC	3610290	The Company	21/01/2006	20/01/2016
NUOQI 诺奇	35	PRC	3087355	The Company	07/06/2013	06/06/2023
诺奇	18	PRC	5125404	The Company	28/06/2009	27/06/2019
诺奇	25	PRC	3610291	The Company	14/02/2006	13/02/2016
诺奇	35	PRC	3512702	The Company	28/11/2004	27/11/2014
N&O	18	PRC	5731644	The Company	21/11/2009	20/11/2019

<u>Trademark</u>	<u>Class</u>	<u>Place of registration</u>	<u>Trademark number</u>	<u>Name of registrant</u>	<u>Date of registration</u>	<u>Expiry date</u>
N&O	25	PRC	5731642	The Company	14/12/2009	13/12/2019
N&O	35	PRC	10699026	The Company	28/05/2013	27/05/2023
NUOQI 诺奇	25	PRC	5731646	The Company	07/04/2011	06/04/2021
诺奇	35	Macau	N/047996	The Company	25/06/2010	25/06/2017
N&O	18	Macau	N/047997	The Company	25/06/2010	25/06/2017
N&O	25	Macau	N/047998	The Company	25/06/2010	25/06/2017

- (b) As at the Latest Practicable Date, we had registered the following copyrights which is material to our business:

<u>Title</u>	<u>Place of registration</u>	<u>Registration number</u>	<u>Effective period</u>
諾奇鞋服代理機構供應鏈管理軟體 . . .	PRC	2009SR058228	01/08/2009 to 31/07/2019
諾奇鞋服客戶關係管理軟體	PRC	2009SR058226	01/08/2009 to 31/07/2019
諾奇鞋服零售管理軟體	PRC	2009SR058222	01/08/2009 to 31/07/2019
諾奇鞋服商業智能管理軟體	PRC	2009SR058221	01/08/2009 to 31/07/2019
諾奇鞋服總部供應鏈管理軟體	PRC	2009SR058218	01/08/2009 to 31/07/2019
諾奇鞋服分銷系統管理軟件	PRC	2012SR999990	01/08/2009 to 31/07/2019

- (c) As at the Latest Practicable Date, we had registered the following domain names:

<u>Registrant</u>	<u>Domain name</u>	<u>Effective Period</u>
福建諾奇股份有限公司	nuoqi.cn	21/11/2005 to 21/11/2014
福建諾奇股份有限公司	nuoqi.net	21/11/2005 to 21/11/2014
Fujian Nuoqi Co., Ltd.	nuoqi.com.hk	11/11/2013 to 11/11/2014

D. FURTHER INFORMATION ABOUT OUR DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

1. Disclosure of Interests

(a) *Interests and short positions of our Directors and the chief executive of our Company in the Shares, underlying Shares and debentures of our Company and its associated corporations*

Immediately following completion of the Global Offering (assuming that the Over-allotment Option is not exercised), the interests or short positions of each of our Directors or chief executives of our Company in the Shares, underlying Shares and debentures of our Company and its associated corporations (within the meaning of Part XV of the SFO) which, once the H Shares are listed, will have to be notified to our Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have taken under such provisions of the SFO) or which will be required, pursuant to Section 352 of the SFO, to be entered in the register required to be kept therein or which, once the H Shares are listed, will be required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Hong Kong Listing Rules to be notified to our Company and the Hong Kong Stock Exchange (for this purpose, the relevant provisions of the SFO will be interpreted as if they applied to the Supervisors) are set out as follows:

<u>Name</u>	<u>Nature of Interest</u>	<u>Number of Shares</u>	<u>Approximate percentage of shareholding interest</u>
Ding Hui	Beneficial owner	202,500,000 Domestic Shares	33.75%
Ding Canyang	Beneficial owner	82,450,000 Domestic Shares	13.74%
Ding Lixia	Interest in controlled corporation (<i>Note</i>)	18,000,000 Domestic Shares	3.00%

Note: Ms. Ding Lixia holds 66.10% equity interest in registered capital of Nuoqi Investment. Accordingly, Ms. Ding is deemed to be interested in the 18,000,000 Shares held by Nuoqi Investment by virtue of the SFO.

(b) *Interests and short positions of the substantial Shareholders in the Shares and Underlying Shares of our Company*

So far as our Directors are aware, immediately following the completion of the Global Offering (assuming that the Over-allotment Option is not exercised), the following persons (not being our Directors or chief executive of our Company) will have or be deemed or taken to have an interest and/or short position in the Shares or the underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group:

<u>Name</u>	<u>Nature of Interest</u>	<u>Number of Shares</u>	<u>Approximate percentage of shareholding interest</u>
Ding Hui	Beneficial owner	202,500,000 Domestic Shares	33.75%
Ding Canyang. . .	Beneficial owner	82,450,000 Domestic Shares	13.74%

(c) *Particulars of service agreements*

Pursuant to Rules 19A.54 and 19A.55 of the Hong Kong Listing Rules, each of our Directors and Supervisors has entered into a service agreement with our Company in respect of, among other things, compliance of relevant laws and regulations, observation of the Articles of Association and Provisions on arbitration. Each of our Directors and Supervisors has also entered into a non-competition agreement (避免同業競爭協議) with our Company, whereby, it is agreed, among other things, each of our Directors and Supervisors shall not directly or indirectly engage in any business or activity in competition with our Company.

Save as disclosed above, none of our Directors or Supervisors in their respective capacities as Directors/Supervisors has entered or has proposed to enter into any service agreements with our Company or any members of our Group (other than contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

(d) *Remuneration of Directors and Supervisors*

- (i) The aggregate amounts of remuneration (including housing allowances, other allowances and benefits in kind) which were paid to our Directors and Supervisors for the three years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013 were approximately RMB776,000, RMB1.1 million, RMB1.1 million and RMB624,000, respectively.
- (ii) Under the existing arrangements currently in force, the aggregate remuneration (including housing allowances, other allowances and benefits in kind) payable to our Directors and Supervisors for the year ended 31 December 2013 are estimated to be approximately RMB1.1 million and RMB117,500, respectively.
- (iii) Save as disclosed in this prospectus, no Director received any remuneration or benefits in kind from our Group during the Track Record Period.

2. Interest in suppliers and customers of our Group

As at the Latest Practicable Date, so far as our Directors were aware, no Director or their respective associates or shareholder (which to the knowledge of our Directors owns more than 5% of the issued share capital of our Company) had any interest in the five largest suppliers or customers of our Group.

3. Related party transactions

Our Group entered into the material related party transactions within the two years immediately preceding the date of this prospectus as mentioned in note 33 of section II of the Accountants' Report set out in Appendix I.

E. OTHER INFORMATION

1. Estate duty, tax and other indemnity

Our Controlling Shareholders (collectively, the "Indemnifiers") entered into an indemnity agreement with our Company on 16 December 2013 (being a material contract referred to in the section headed "Further information about our business — Summary of material contracts" in this Appendix) to provide indemnities in favour of our Group in respect of, among other matters, (1) any taxation which has been made or may be made against any member of our Group in respect of or in consequence of any event occurring or any income, profits or gains earned, accrued or received or deemed to be so earned, accrued or received on or before the Listing Date or any transaction, matter, thing, event, act or omission occurring on or deemed to occur on or before such date, whether alone or in conjunction with any other transaction, matter, thing, event, act, omission or circumstances whenever occurring, whether or not such taxation is chargeable against or attributable to any other person, firm or company, save for the amount of any surtaxes and penalties imposed on any member of our Group relating to any enterprise income tax liability on or before the Listing Date as a result of the relevant tax authorities in the PRC having determined that the relevant member(s) of our Group is or are not entitled to certain preferential tax treatment; (2) any damages arising from or in connection with any property claims or third party claims or claims by the government of Hong Kong and the PRC or mortgagee of the property owned or leased by our Group arising out of (i) any breach or non-compliance of any applicable Hong Kong law and PRC law, rules and/or regulations affecting any such property; and/or (ii) of the occupier or user of any such property; and/or (iii) any breach or non-compliance of other terms, conditions, covenants, restrictions of the relevant agreement (including but not limited to mortgage, legal charge and tenancy agreement) or of any (if any) land use right sale and purchase agreement or holding of any defective real estate title certificate or any other title documents in respect of any such property; (3) any claims, actions, demands, proceedings, judgements, losses, liabilities, damages, costs, charges, fees, expenses and fines suffered or incurred by our Group in connection with the social welfare schemes and housing fund contributions made by any member based on the local minimum wage standards prior to and after the Listing; and (4) any actions, claims, losses, payments, charges, costs, penalties, damages or expenses which our Company may incur, suffer or accrue, directly or indirectly, that may arise from or in connection with non-compliance incidents as disclosed in the section headed "Business" in this prospectus.

Our Directors have been advised that no material liability for estate duty is likely to fall on our Company or any of its subsidiaries under the laws of Hong Kong or the PRC, being jurisdictions in which one or more of the companies comprising our Group are incorporated.

2. Litigation

During the Track Record Period and up to the Latest Practicable Date, no member of our Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to our Directors to be pending or threatened against any member of our Group.

3. Sole Sponsor

The Sole Sponsor has declared its independence pursuant to Rule 3A.07 of the Hong Kong Listing Rules.

CCBI has made an application on behalf of our Company to the Listing Committee for the listing of, and permission to deal in, the H Shares in issue and H Shares to be issued as mentioned herein (including any H Shares falling to be issued pursuant to the exercise of the Over-allotment Option).

4. Preliminary expenses

The estimated preliminary expenses in relation to the conversion of our Company from a limited liability company into a joint stock limited liability company were approximately RMB230,000 and were paid or payable by our Company.

5. Promoters

The promoters of the Company are as follows:

1. Mr. Ding Hui
2. Mr. Ding Canyang
3. He Zhong Investment
4. Mr. Xu Mingqing
5. Nuoqi Investment
6. Mr. Yang Jianhui
7. Mr. Wang Zongqing

Save as disclosed in the section headed “History and Group Structure” in this prospectus, within the two years preceding the date of this prospectus, no cash, securities or other benefit had been paid, allotted or given, nor are any such cash, securities or other benefit intended to be paid, allotted or given, to the promoter of our Company in connection with the Global Offering or the related transactions described in this prospectus.

6. Qualifications of experts

The following are the qualifications of the experts who have given opinion or advice which are contained in this prospectus:

Name	Qualification
CCBI.	Licenced corporation under the SFO to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities
Fujian Junli Law Firm	PRC legal adviser
Ernst & Young	Certified public accountants
Jones Lang LaSalle Corporate Appraisal and Advisory Limited.	Property valuer and consultant
Frost & Sullivan	Independent market research firm

7. Consents of experts

Each of CCBI, Fujian Junli Law Firm, Ernst & Young, Jones Lang LaSalle Corporate Appraisal and Advisory Limited and Frost & Sullivan has given and has not withdrawn its written consent to the issue of this prospectus with the inclusion of its report and/or opinion and/or letter and/or valuation certificate and/or the references to its name included herein in the form and context in which they are respectively included.

8. Binding effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of Sections 44A and 44B of the Companies Ordinance insofar as applicable.

9. Agency fees or commission received

The Underwriters will receive an underwriting commission, and the Sole Sponsor will receive a documentation fee, see the section headed “Underwriting — Commissions and expenses” in this prospectus for more details.

10. Disclaimers

Save as disclosed in this Appendix:

- (a) none of our Directors nor any of the persons whose names are lasted in the paragraph headed “Other Information — Consents of experts” in this Appendix is interested in the promotion of our Company, or in any assets which have been within the two years immediately preceding the issue of this prospectus, or are proposed to be, acquired or disposed of by or leased to any member of our Group; and

- (b) none of our Directors nor any of the persons whose names are listed in the paragraph headed “Other Information — Consents of experts” in this Appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of our Group.

11. Taxation of dividends and on gains from sale

Under the current practice of the Hong Kong Inland Revenue Department, no tax is payable in Hong Kong in respect of dividends paid by our Company.

No tax is imposed in Hong Kong in respect of capital gains from the sale of property such as the H Shares. However, trading gains from the sale of property by persons carrying on a trade, profession or business in Hong Kong where the gains are derived from or arise in Hong Kong from the trade, profession or business will be subject to Hong Kong profits tax, which is currently imposed at a rate of 16.5% on corporations and at a maximum rate of 15% on individuals. Certain categories of taxpayers are likely to be regarded as deriving trading gains rather than capital gains (for example, financial institutions, insurance companies and securities dealers) unless these taxpayers can prove that the investment securities are held for long-term investment.

Trading gains from sales of H Shares effected on the Hong Kong Stock Exchange will be considered to be derived from or arising in Hong Kong. Liability for Hong Kong profits tax would thus arise in respect of trading gains from sales of H Shares effected on the Hong Kong Stock Exchange realised by persons carrying on a business of trading or dealing in securities in Hong Kong.

For further information relating to the taxation, please refer to Appendix V headed “Taxation and Foreign Exchange” of this prospectus.

12. Miscellaneous

Save as disclosed in the section headed “History and Group Structure” in this prospectus and in this Appendix:

- (a) within the two years immediately preceding the date of this prospectus:
 - (i) no share or loan capital of our Company or any of its subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash; and
 - (ii) no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any capital of our Company or any of its subsidiaries;
- (b) no founders, management or deferred shares of our Company or any of its subsidiaries have been issued or agreed to be issued;
- (c) no share or loan capital of our Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;

- (d) none of CCBI, Fujian Junli Law Firm, Ernst & Young, Jones Lang LaSalle Corporate Appraisal and Advisory Limited and Frost & Sullivan:
 - (i) is interested beneficially or non-beneficially in any shares in any member of our Group;
or
 - (ii) has any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any securities in any member of our Group;
- (e) no company within our Group is presently listed on any stock exchange or traded on any trading system; and
- (f) all necessary arrangements have been made to enable the H Shares to be admitted into CCASS for clearing and settlement.

13. Bilingual prospectus

The English language and Chinese language versions of this prospectus are being published separately in reliance upon the exemption provided by Section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

This prospectus is written in the English language and contains a Chinese translation for information purposes only. Should there be any discrepancy between the English version of this prospectus and the Chinese translation, the English language version of this prospectus shall prevail.

APPENDIX IX DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG AND AVAILABLE FOR INSPECTION

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were copies of the **WHITE**, **YELLOW** and **GREEN** Application Forms, the written consents referred to in the section headed “Other information — Consents of experts” in Appendix VIII to this prospectus, copies of material contracts referred to in the section headed “Further information about our business — Summary of material contracts” in Appendix VIII to this prospectus.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Stephenson Harwood at 35th Floor, Bank of China Tower, 1 Garden Road, Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) the Articles;
- (b) the accountants’ report prepared by Ernst & Young, the text of which is set out in Appendix I to this prospectus;
- (c) the consolidated audited financial statements of our Group for the three years ended 31 December 2012 and the six months ended 30 June 2013 (or for the period since their respective dates of incorporation where it is shorter);
- (d) the letter prepared by Ernst & Young relating to the unaudited pro forma financial information, the text of which is set out in Appendix II to this prospectus;
- (e) the letter prepared by Ernst & Young relating to the forecast of the consolidated profit of our Group for the year ending 31 December 2013, the text of which is set out in Appendix III to this prospectus;
- (f) the letter prepared by CCBI relating to the forecast of the consolidated profit of our Group for the year ending 31 December 2013, the text of which is set out in Appendix III to this prospectus;
- (g) the letter, summary of values and valuation certificates relating to the property interest of us prepared by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, the text of which is set out in Appendix IV to this prospectus and the full valuation report prepared by Jones Lang LaSalle Corporate Appraisal and Advisory Limited;
- (h) the report prepared by Frost & Sullivan relating to, among others, the menswear market and the men’s fashion casual wear market in the PRC;
- (i) the material contracts referred to in the section headed “Further information about our business — Summary of material contracts” in Appendix VIII to this prospectus;
- (j) the written consents referred to in the section headed “Other information — Consents of experts” in Appendix VIII to this prospectus;

**APPENDIX IX DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES
IN HONG KONG AND AVAILABLE FOR INSPECTION**

- (k) the service agreements referred to in the section headed “Further information about our Directors and substantial Shareholders — Particulars of service agreements” in Appendix VIII to this prospectus;
- (l) the legal opinions issued by Fujian Junli Law Firm, our legal adviser as to PRC law; and
- (m) the PRC Company Law, the Mandatory Provisions and the Special Regulations together with their unofficial translations.

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