You should read the following discussion and analysis of our financial condition and results of operations together with the financial information as of and for each of the years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013 and the accompanying notes included in the accountants' report set out in Appendix I to this prospectus (the "Accountants' Report"). The financial information in the Accountants' Report has been prepared in accordance with IFRS. Potential investors should read the Accountants' Report and not rely merely on the information contained in this section. The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. For additional information regarding these risks and uncertainties, please see "Risk Factors" in this prospectus for more details.

OVERVIEW

We are a leading mid-to-high end children's apparel brand in China. We offer a wide range of high-quality, functional and comfortable children's apparel products under our "redkids" brand. Our "redkids" brand is ranked second among mid-to-high end children's apparel brands in China based on retail revenue for the year ended December 31, 2012, according to Frost & Sullivan.

We primarily sell our products on a wholesale basis to distributors. The distributors sell our products either to end customers at retail outlets operated by them or to their sub-distributors. We also manufactured children's apparel for domestic and international brands on an OEM basis during the Track Record Period. As of June 30, 2013, we had 24 distributors, who together with their sub-distributors, operated a total of 582 retail outlets under our "redkids" brand throughout 24 provinces and municipalities in China, including 308 street shops, 62 shopping mall outlets and 212 department store concessions. We intend to gradually increase the number of our self-operated retail outlets in selected markets primarily, which we intend to use as model stores to enhance our brand recognition, demonstrate our standards for store appearance and operational management, and provide guidance to distributors in brand promotion and efficient retail management. We plan to sell our products directly to end customers through these self-operated retail outlets. Currently, we do not expect the total number of our self-operated retail outlets to exceed 50 by the end of 2014. As of Latest Practicable Date, we have one designated online distributor, Red Kids E-commerce, which purchases products from us on a wholesale basis before selling them to end customers through various online sales platforms. Our sales to Red Kids E-commerce increased significantly from RMB0.8 million for the year ended December 31, 2010 to RMB29.8 million for the year ended December 31, 2011 to RMB87.8 million for the year ended December 31, 2012, and our sales to Red Kids E-commerce increased from RMB24.5 million for the six months ended June 30, 2012 to RMB37.1 million for the six months ended June 30, 2013. For the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, our sales to Red Kids E-commerce represented 0.2%, 7.6%, 16.9% and 14.7% of our turnover, respectively.

During the Track Record Period, we manufactured a portion of our products at our own production facility in Quanzhou, Fujian Province, and outsourced the remainder to domestic OEMs. The proportion of products that were manufactured by our OEMs increased over the Track Record Period, accounting for approximately 14.6%, 40.2%, 50.1% and 68.1% of our total cost of sales for the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, respectively. We currently expect outsourced products to represent a further increasing percentage of our cost of sales in the near future.

We achieved significant growth in turnover and net profit over the Track Record Period. Our turnover increased from RMB327.0 million for the year ended December 31, 2010 to

RMB392.4 million for the year ended December 31, 2011 to RMB520.0 million for the year ended December 31, 2012, and our turnover increased from RMB176.5 million for the six months ended June 30, 2012 to RMB253.2 million for the six months ended June 30, 2013. Our profit for the year increased from RMB75.9 million for the year ended December 31, 2010 to RMB77.3 million for the year ended December 31, 2011 to RMB115.4 million for the year ended December 31, 2012, and our profit increased from RMB33.8 million for the six months ended June 30, 2012 to RMB42.2 million for the six months ended June 30, 2013.

BASIS OF PRESENTATION

Our Company was incorporated as an exempted company under the laws of the Cayman Islands with limited liability on March 15, 2013. Following the completion of the Corporate Reorganization on April 16, 2013, our Company became the holding company of companies now comprising our Group. The Corporate Reorganization completed on April 16, 2013 has been accounted for in accordance with the principle similar to a reverse acquisition as set out in IFRS 3, "Business Combinations". The issue of shares of the Company in exchange for the controlling interest in Red Kids HK and the connected share swap between the Company, Obvious Cheer and Red Kids HK resulted in the Company becoming the holding company of Red Kids HK.

The financial information in the Accounts' Report has been prepared as a continuation of Red Kids HK and the consolidated assets and liabilities of Red Kids HK are recognized and measured at their historical carrying values prior to April 16, 2013.

FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our results of operations have been and will continue to be affected by a number of external factors, including the following:

Brand recognition

We sell substantially all our products under our "redkids" brand. We believe that our ability to produce high-quality, functional and comfortable children's apparel have helped us to attract our target customers. Market acceptance of our brand may affect the selling prices and market demand for our products, our profitability and future development. As a result, we believe that market recognition of our brand is critical to our success. We spent approximately RMB28.8 million, RMB36.2 million, RMB41.2 million and RMB18.7 million on our brand promotion and marketing activities for the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, respectively. We also work closely with our distributors to ensure that our brand culture and brand image is maintained consistently at the retail outlets. We intend to strengthen our promotional efforts and continue to devote resources to raise our brand profile through multiple advertising channels and platforms. Our success in growing our end customer base depends on our ability to enhance our brand awareness and to maintain a brand image and culture that appeals to potential customers. If we are unsuccessful in promoting our "redkids" brand or fail to maintain our brand position, market perception and consumer acceptance of our brand may be eroded, and our business, financial condition, results of operations and prospects may be materially and adversely affected.

Expansion and performance of our distribution network

We sell substantially all of our products on a wholesale basis to distributors. Our distributors sell our products either to end customers at their retail outlets or through their sub-distributors. As of December 31, 2010, 2011 and 2012 and June 30, 2013, we had 476, 560, 594 and 582 retail outlets operated by our distributors and sub-distributors in China for our products. For further details of retail outlet breakdown under our "redkids" brand by region, please see "Business — Sales and Distribution — Our Distribution Network." Our ability to increase sales is directly affected by the number and performance of the retail outlets operated by our distributors and their subdistributors. We intend to increase our penetration in existing markets and expand our distribution network to new markets. We believe that it is important to enhance our distribution network in third- and fourth-tier cities, where we believe the growth potential is significant. Our sales and profit growth will continue to depend on our ability to expand our distribution network and to effectively manage our distributors to improve the performance of the retail outlets.

Raw materials and labor costs

We outsource the production of certain products to OEMs and manufacture the rest of our products at our production facility in Quanzhou, Fujian Province. It is important for us and our OEMs to obtain sufficient quantities of quality raw materials in a timely manner and at competitive prices. The cost of raw materials used to produce our products is affected by several factors, including commodity prices, purchase volume and availability of substitute materials. For the three years ended December 31, 2010, 2011 and 2012 and six months ended June 30, 2013, cotton blend fabrics accounted for approximately 48.9%, 34.5%, 24.4% and 18.3% of the total cost of raw materials consumed. According to the China Cotton Association, the China Cotton Index 328 increased by approximately 23.1% from an average of RMB19,373.8 per ton in 2010 to an average of RMB23,843.8 per ton in 2011, then decreased by approximately 20.7% to an average of RMB18,916.5 per ton in 2012 and increased by approximately 2.2% to an average of RMB19,326.1 per ton in the six months ended June 30, 2013. Furthermore, our cost of production is also influenced by changes in labor costs in the PRC. In addition to inflation and other factors, the implementation of certain policies, such as the PRC Employment Contract Law, may affect labor costs in the PRC. For the three years ended December 31, 2010, 2011 and 2012 and six months ended June 30, 2013, our labor cost amounted to RMB33.5 million, RMB34.2 million, RMB34.9 million and RMB13.0 million, respectively. Our average staff cost per head increased by 2.8% from an average of RMB35,172 in 2010 to an average of RMB36,144 in 2011 and then further increased by approximately 17.3% to an average of RMB42,408 in 2012. If costs of raw materials and labor increase and we are unable to pass on such increases to our customers in a timely manner, our business, financial condition and results of operations may be materially and adversely affected. See "Risk Factors — Risks Relating to Our Business and Our Industry — Increase in cost of outsourced production, raw materials and labor in the PRC may adversely affect our business and our profitability".

Sensitivity analysis

The following tables illustrates the sensitivity of our net profit for the years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013 in relation to movements in our cost of cotton fabric and cost of labor of the respective periods.

	For the year ended December 31,						For the six month ended June 30,	
	2010		2011		2012		2013	
Cotton fabric cost changes	Net profit	Change in net profit	Net profit	Change in net profit	Net profit	Change in net profit	Net profit	Change in net profit
	RMB	%	RMB	%	RMB	%	RMB	%
20%	56,834,520	(25.2)%	60,181,418	(22.2)%	99,624,820	(13.7)%	36,433,580	(13.7)%
10%	66,389,760	(12.6)%	68,752,209	(11.1)%	107,531,410	(6.9)%	39,330,790	(6.9)%
0%	75,945,000	0.0%	77,323,000	0.0%	115,438,000	0.0%	42,228,000	0.0%
(10)%	85,500,240	12.6%	85,893,791	11.1%	123,344,590	6.9%	45,125,210	6.9%
(20)%	95,055,480	25.2%	94,464,582	22.2%	131,251,180	13.7%	48,022,420	13.7%

	For the year ended December 31,						For the six month ended June 30,	
	2010		2011		2012		2013	
Direct labor cost changes	Net profit	Change in net profit	Net profit	Change in net profit	Net profit	Change in net profit	Net profit	Change in net profit
	RMB	%	RMB	%	RMB	%	RMB	%
20%	70,530,414	(7.1)%	72,676,345	(6.0)%	110,620,165	(4.2)%	40,803,883	(3.4)%
10%	73,237,707	(3.6)%	74,999,672	(3.0)%	113,029,083	(2.1)%	41,515,941	(1.7)%
0%	75,945,000	0.0%	77,323,000	0.0%	115,438,000	0.0%	42,228,000	0.0%
(10)%	78,652,293	3.6%	79,646,328	3.0%	117,846,917	2.1%	42,940,059	1.7%
(20)%	81,359,586	7.1%	81,969,655	6.0%	120,255,835	4.2%	43,652,117	3.4%

Economic growth and per capita disposable income in the PRC

We generate substantially all of our revenue in the PRC and our business is directly affected by the economic development in the PRC. The PRC has experienced significant economic growth in recent years, achieving a CAGR for nominal GDP of approximately 13.4% from 2008 to 2012. Economic growth in the PRC contributes to increases in disposable income and consumer spending among its population, which, in turn, drive demand for consumer products. According to the National Bureau of Statistics of China, per capita annual disposable income of urban residents in China, which make up the majority of our end consumers, grew from approximately RMB15,780.8 in 2008 to approximately RMB24,565.0 in 2012, representing a CAGR of approximately 11.7%. Furthermore, the average annual Chinese household disposable income is expected to increase to RMB46,814.0 in 2017, representing a CAGR of 13.8%, according to Frost & Sullivan. In addition, the per capita annual expenditure on children's apparel in the PRC grew at a CAGR of 20.5% between 2008 and 2012 and is expected to continue to increase from RMB740.3 in 2012 to RMB1,658.9 in 2017, representing a CAGR of 17.5% for the period from 2012 to 2017, according to Frost & Sullivan. Economic development and increase in disposable income tend to help increase demand for quality children's products. We believe that the growth of the PRC economy will help to expand our end customer base, increase demand for our products and contribute to the growth in our revenue and profits. On the other hand, any slow down or decline in the PRC economy may adversely affect consumer demand in general and the demand for our products and therefore negatively affect our business, financial condition, results of operations and prospects.

PRC governmental policies

PRC governmental policies and measures may have a direct impact on our business. In particular, any adjustments or changes from the PRC government on policies and measures relating to population growth will have an effect on our growth prospects. For example, any changes or adjustments to the "one-child" policy will have a direct impact on our target consumer group and the market demand for children's products, which in turn will influence our sales and business prospects. In addition, regulatory policies affecting the children's apparel industry will continue to have a direct impact on us. Policies that elevate product quality standards may materially change our production costs, and if we are unable to meet new standards, demand for our products may be adversely affected. Our ability to comply with any new regulatory policies will affect our business, financial condition, results of operations and prospects.

Seasonality

Our business and operating results are subject to seasonal fluctuations. We generally record higher sales in the autumn and winter seasons because the average wholesale selling prices of our autumn and winter apparel are typically higher than those of spring and summer apparel. We also record higher sales to distributors typically before and during holiday seasons, such as Children's Day, the Chinese New Year and the Chinese National Day holidays. Our operating results may also fluctuate from period to period based on changes in fashion trends, consumer demand and the seasonality of consumer spending on children's apparel. In addition, changes in the weather patterns, extreme or unusual weather conditions may also cause our results of operations to fluctuate. As a result, any comparison of our 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. Our results of operations are likely to continue to fluctuate due to seasonality. The following table sets forth our seasonal average wholesale selling price during the periods indicated:

	For the year ended December 31,			For the six months ended June 30,	
Average wholesale selling price	**2010**	**2011**	**2012**	**2012**	**2013**
	RMB	**RMB**	**RMB**	**RMB**	**RMB**
Spring/summer products	31.8	37.3	42.6	40.1	43.2
Fall/winter products	65.4	72.3	79.5	—[(1)]	—[(1)]

Note:

(1) During the six months ended June 30, 2012 and 2013, we sold only a limited number of fall/winter apparel. As a result, the average wholesale selling price of these products are not included in this table.

Pricing of our products and product mix

We determine the retail price of our products based on multiple factors, including our internal production costs, our competitor's pricing strategies, consumer purchasing power, and the general economic conditions in the PRC. In addition, the willingness of our target customers to pay a premium for high-quality children's apparel also play a significant role in our pricing decisions. We typically sell our products to our distributors at a discount to the suggested retail price. Any change in the discount rate will directly affect our revenue and profit margins. In addition, as part of our efforts to maximize revenue, we continuously adjust our product mix by developing and introducing new products that we believe will generate higher consumer demand. Our revenue, profitability and financial condition will continue to be affected by any change in our product mix and pricing of our products.

Sensitivity analysis

The following tables illustrates the sensitivity of our net profit for the years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013 in relation to movements in our average wholesale selling price of the respective periods.

	For the year ended December 31,						For the six month ended June 30,	
	2010		2011		2012		2013	
Average wholesale selling price changes	Net profit	Change in net profit	Net profit	Change in net profit	Net profit	Change in net profit	Net profit	Change in net profit
	RMB	%	RMB	%	RMB	%	RMB	%
20%	138,380,400	82.2%	150,070,000	94.1%	218,617,600	89.4%	92,738,000	119.6%
10%	107,162,700	41.1%	113,696,500	47.0%	167,027,800	44.7%	67,483,000	59.8%
0%	75,945,000	0.0%	77,323,000	0.0%	115,438,000	0.0%	42,228,000	0.0%
(10)%	44,727,300	(41.1)%	40,949,500	(47.0)%	63,848,200	(44.7)%	16,973,000	(59.8)%
(20)%	13,509,600	(82.2)%	4,576,000	(94.1)%	12,258,400	(89.4)%	(8,282,000)	(119.6)%

Taxation

Our profitability and financial performance is affected by the level of taxation that we pay on our profit and the preferential tax treatments to which we are entitled. Under the Enterprise Income Tax Law of the PRC, there is a transition period for enterprises, whether foreign-invested or domestic, that were then receiving preferential tax treatment under the former applicable laws and regulations. Enterprises subject to an enterprise income tax rate lower than 25% may continue to enjoy the lower rate and gradually transition to the new tax rate within five years after the effective date of the EIT Law. Our PRC operating subsidiary, Red Kids China, is entitled to a two-year tax exemption followed by a three-year 50% reduction in enterprise income tax rate commencing from its first profitable year. Red Kids China first became profitable in 2008. It was subject to a reduced enterprise income tax rate of 12.5% from 2010 to 2012 and will be subject to the standard enterprise income tax rate of 25% in 2013 and beyond.

Competition

The children's apparel industry in China is fragmented and highly competitive. We compete primarily with PRC domestic children's apparel brands, such as Balabala, Goodbaby, Dadida and Annil Kidswear, on the basis of brand recognition, product design, product quality, marketing and promotion, end customer service, retail network coverage and price. We have limited ability to set price levels of our products in our target markets. We may take actions such as adjusting prices of our products, providing sales incentives and increasing expenditure on advertising in order to be competitive in the market, which may in turn materially and adversely affect our profit margins and other results of operations. Please see "Risk Factors — Risks Relating to Our Business and Our Industry — We operate in a fragmented and highly competitive market. If we fail to compete effectively, our market share and profit margins may decline" for more details.

CRITICAL ACCOUNTING POLICIES, ESTIMATES AND JUDGMENTS

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

We made a final assessment of the potential impact of each new and revised IFRS that have been issued but are not effective and have concluded that the adoption of each new and revised IFRS is unlikely to have a significant impact on our results of operations and financial position.

Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable; provided it is probable that the economic benefits will flow to us and the revenue and costs, if applicable, can be measured reliably. Revenue from sale of goods is recognized when goods are delivered and when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax and is after deduction of any trade discounts.

Inventories; net realizable value of inventories

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

Net realizable value of inventories is the estimated selling price in the ordinary course of business less estimated costs of completion and the estimated costs necessary to make the sale. These estimates are based on the current market conditions and the experience of selling products with similar nature. Any change in the assumptions would increase or decrease the amount of inventories write-down or the related reversals of write-down made in prior years and affect our net assets value. We reassess these estimates at the end of each reporting period.

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

Trade and Other Receivables; Impairment of Trade and Other Receivables

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

Trade and other receivables are derecognized if substantially all the risks and rewards of ownership of the trade and other receivables are transferred. If substantially all the risks and rewards of ownership of trade and other receivables are retained, the trade and other receivables continue to be recognized in the consolidated statements of financial position.

We estimate the impairment allowances for trade and other receivables by assessing the recoverability based on credit history and prevailing market conditions. This requires the use of estimates and judgments. Allowances are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. Where the expectation is different from the original estimate, such difference will affect the carrying amounts of trade and other receivables and thus the impairment loss in the period in which such estimate is changed. We reassess the impairment allowances at the end of each reporting period.

RESULTS OF OPERATIONS

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

	Year ended December 31,			Six months ended June 30,	
	2010	2011	2012	2012	2013
		RMB'000		RMB'000	
Turnover	326,974	392,369	519,987	176,548	253,185
Cost of sales	(195,554)	(248,460)	(324,173)	(113,090)	(158,546)
Gross profit	131,420	143,909	195,814	63,458	94,639
Other revenue	155	619	218	154	230
Other net (loss)/income	(66)	(98)	1	3	(781)
Selling and distribution expenses	(33,808)	(43,053)	(49,542)	(19,103)	(22,509)
Administrative and other operating expenses	(9,007)	(11,316)	(13,233)	(5,621)	(12,262)
Profit from operations	88,694	90,061	133,258	38,891	59,317
Finance costs	(1,877)	(2,179)	(2,477)	(1,094)	(1,582)
Profit before taxation	86,817	87,882	130,781	37,797	57,735
Income tax	(10,872)	(10,559)	(15,343)	(4,042)	(15,507)
Profit for the year/period	75,945	77,323	115,438	33,755	42,228

PRINCIPAL COMPONENTS OF STATEMENTS OF COMPREHENSIVE INCOME

Turnover

During the Track Record Period, we derive our turnover primarily from sale of our products to distributors on a wholesale basis. Turnover represents the net value of goods sold less returns, discounts and value added taxes. Our distributors have no right to return purchased goods to us except when the products are defective.

The table below sets forth our revenue by product/service category for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2010		2011		2012		2012		2013	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Apparel	312,177	95.5	363,735	92.7	515,898	99.2	174,022	98.5	252,550	99.7
Accessories	793	0.2	3,856	1.0	378	0.1	162	0.1	—	—
Footwear	—	—	15,140	3.9	969	0.2	455	0.3	—	—
OEM services	14,004	4.3	9,638	2.4	2,742	0.5	1,909	1.1	635	0.3
Total turnover	**326,974**	**100.0**	**392,369**	**100.0**	**519,987**	**100.0**	**176,548**	**100.0**	**253,185**	**100.0**

Sales of apparel products accounted for substantially all of our turnover during the Track Record Period. Turnover contribution from accessories and footwear increased from 2010 to 2011 and subsequently decreased in 2012. In 2011, we experimented with developing a footwear product line and expanding our accessory product offering to include backpacks for children. We hired an ODM to design and manufacture footwear products and another ODM to design and manufacture children's backpacks for us. As these ODMs did not fully grasp our brand culture and brand image, the products they designed and manufactured did not match the style of our apparel products and, as a result, did not generate synergy in retail outlets. We ended these product lines in 2011 and did not place any additional orders in 2012. In 2011, we sold a majority of the footwear products and backpacks we procured, and the remainder were sold in 2012.

Our turnover derived from OEM services decreased over the Track Record Period as we continued to shift our focus to the development and sale of products under our own "redkids" brand.

The table below sets forth our turnover by sales channel for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2010		2011		2012		2012		2013	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Turnover										
Sales to distributors[(1)]	312,182	95.5	352,972	90.0	429,418	82.6	150,134	85.0	215,454	85.0
Sales to online distributor[(2)]	788	0.2	29,759	7.6	87,827	16.9	24,505	13.9	37,096	14.7
OEM services	14,004	4.3	9,638	2.4	2,742	0.5	1,909	1.1	635	0.3
Total	**326,974**	**100.0**	**392,369**	**100.0**	**519,987**	**100.0**	**176,548**	**100.0**	**253,185**	**100.0**

Note:

(1) "Sales to distributors" represents turnover derived from our sales to distributors excluding Red Kids E-commerce, our online distributor.

(2) "Sales to online distributor" represents turnover derived from our sales to Red Kids E-commerce, our online distributor.

To capture the significant market potential for sales of children's apparel through online sales platforms at the beginning of the Track Record Period, we have authorized Red Kids E-commerce as our online distributor since 2010. Through our distinct designs tailored for the online consumer group and our marketing efforts in collaboration with Red Kids E-commerce, our designated online distributor, and some online sales platforms, our online customer base expanded rapidly and sales to our online distributor increased significantly during the Track Record Period.

The table below sets forth our sales volume and average selling price for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2010	2011	2012	2012	2013
Sales volume (million units)	6.9	7.6	8.9	4.3	5.6
Average wholesale selling price (RMB)	47.4	51.3	58.3	40.7	45.2

Cost of Sales

Cost of sales primarily includes cost of raw materials, direct labor and overhead for our in-house production, and purchases of products from our OEMs. During the Track Record Period, we manufactured a portion of our products at our own production facility, which primarily consisted of T-shirts, shirts, tank tops, coats, pants, blouses and shorts. We outsourced to OEMs the rest of our products, which primarily included jeans, sweaters and down jackets. The following table sets forth a breakdown of our cost of sales by type for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2010		2011		2012		2012		2013	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Production										
— Raw materials	126,692	64.8	110,713	44.6	120,528	37.2	51,228	45.3	37,507	23.7
— Direct labor	27,073	13.8	23,234	9.4	24,089	7.4	11,363	10.0	7,120	4.5
— Production overhead	12,687	6.5	11,575	4.6	11,820	3.7	6,769	6.0	3,532	2.2
Purchases from OEMs	28,612	14.6	99,842	40.2	162,472	50.1	41,222	36.5	107,977	68.1
Taxes and levies	490	0.3	3,096	1.2	5,264	1.6	2,508	2.2	2,410	1.5
Total Cost of Sales	**195,554**	**100.0**	**248,460**	**100.0**	**324,173**	**100.0**	**113,090**	**100.0**	**158,546**	**100.0**

Raw materials represented approximately 64.8%, 44.6%, 37.2% and 23.7%, respectively, of our total cost of sales for the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013. Raw materials primarily consist of fabrics and auxiliary materials used in our own production.

Direct labor represented approximately 13.8%, 9.4%, 7.4% and 4.5%, respectively, of our total cost of sales for the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013. Direct labor consists mainly of salaries and benefits for employees in our production operations.

Production overhead costs represented approximately 6.5%, 4.6%, 3.7% and 2.2%, respectively, of our total cost of sales for the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013. Production overhead costs mainly comprise indirect labor representing primarily staff costs for quality control, production and sourcing management team, depreciation of plant and machinery, maintenance, fuel and utilities.

Purchases from OEMs represented 14.6%, 40.2%, 50.1% and 68.1%, respectively, of our total cost of sales for the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013. Our purchases from OEMs increased significantly during the Track Record Period because we made the strategic decision to focus our resources and management's attention on aspects other than manufacturing that we believe contribute more value to our business, such as brand management and sales and marketing. As a result, we did not expand our production capacity as our sales volume increased; instead, we increased the proportion of outsourced production.

Taxes and levies represented 0.3%, 1.2%, 1.6% and 1.5% of our total cost of sales for the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, respectively. Taxes primarily include urban construction tax and other levies, which are charged by PRC local government. Beginning in December 2010, foreign invested enterprises are required to pay urban construction tax and education levy.

The table below sets forth a breakdown of our cost of sales by product category for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2010		2011		2012		2012		2013	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Apparel	184,800	94.5	230,563	92.8	321,302	99.1	111,237	98.4	158,141	99.7
Accessories	575	0.3	2,199	0.9	252	0.1	101	0.1	—	—
Footwear	—	—	9,044	3.6	653	0.2	282	0.2	—	—
OEM services	10,179	5.2	6,654	2.7	1,966	0.6	1,470	1.3	404	0.3
Total cost of sales	**195,554**	**100.0**	**248,460**	**100.0**	**324,173**	**100.0**	**113,090**	**100.0**	**158,546**	**100.0**

Gross Profit and Gross Profit Margin

For the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, our gross profit was approximately RMB131.4 million, RMB143.9 million, RMB195.8 million and RMB94.6 million, respectively, and our gross profit margin for the same periods was 40.2%, 36.7%, 37.7% and 37.4%, respectively.

The table below sets forth our gross profit and gross profit margin by product/service category for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2010		2011		2012		2012		2013	
	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Apparel	127,377	40.8	133,172	36.6	194,596	37.7	62,785	36.1	94,409	37.4
Accessories	218	27.5	1,656	43.0	126	33.4	60	37.4	—	—
Footwear	—	—	6,097	40.3	316	32.6	173	38.1	—	—
OEM services	3,825	27.3	2,984	31.0	776	28.3	439	23.0	230	36.3
Total	**131,420**	40.2	**143,909**	36.7	**195,814**	37.7	**63,458**	35.9	**94,639**	37.4

Our gross profit margin for apparel decreased for the year ended December 31, 2011 compared with the year ended December 31, 2010 primarily because we did not increase the wholesale selling price of our products in proportion to the increase in cost of sales in order to strengthen our competitive position in our industry. Our gross profit margin for apparel increased for the year ended December 31, 2012 compared with the year ended December 31, 2011 primarily due to the increase in average wholesale selling price of our products as a result of our enhanced brand recognition and market position. Our gross profit margins for accessories and footwear for 2011 increased compared with 2010 as we began sales of backpacks and footwear products in 2011. Our gross profit margins for accessories and footwear decreased for 2012 compared with 2011 as we discontinued these products and sold remaining inventories in 2012 at a discount to the original sale prices that were set in 2011. Our gross margin for OEM services was higher for 2011 as the products involved required more complex production techniques and we were able to generate a higher profit. Our gross profit margin increased for the six months ended June 30, 2013 compared with the six months ended June 30, 2012 primarily due to the increase in the gross profit margin for our products sold to our online distributor, Red Kids E-commerce. The increase in the average wholesale selling price of our products sold to Red Kids E-commerce outpaced the increase in the average cost of such products as a result of our enhanced brand recognition among online consumers.

The table below sets forth our gross profit and gross profit margin by distribution channel for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2010		2011		2012		2012		2013	
	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Sales to distributors	127,366	40.8	130,407	36.9	163,608	38.1	56,283	37.5	78,775	36.6
Sales to online distributor	322	40.9	10,625	35.7	31,463	35.8	6,736	27.5	15,634	42.1
OEM services	3,732	26.6	2,877	29.8	743	27.1	439	23.0	230	36.3
Total	**131,420**	40.2	**143,909**	36.7	**195,814**	37.7	**63,458**	35.9	**94,639**	37.4

Other Revenue and Other Net (Loss)/Income

Other revenue and other net (loss)/income primarily consist of interest income from bank deposits, government grants, sampling fees from our OEM customers, and net foreign exchange (loss)/gain. Government grants represent cash subsidies and tax refund provided by local government for the exported products that we produced for our OEM customers. These subsidies are non-recurring and the amounts of subsidies are discretionary in nature. We receive fees for sample creation in our OEM service business. In 2011, we reviewed such fees we had received but not recognized during prior years, and recorded such fees as other revenue for the year ended December 31, 2011. As a result, our other revenue for 2011 was higher than 2010 and 2012. The following table sets forth a breakdown of our other revenue and other net (loss)/income for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2010	2011	2012	2012	2013
		RMB'000		RMB'000	
Other Revenue					
Interest income	33	258	212	154	230
Government grants	114	—	6	—	—
Others	8	361	—	—	—
	155	619	218	154	230
Other Net (Loss)/Income					
Net foreign exchange (loss)/gain	(66)	(98)	1	3	(781)
	(66)	(98)	1	3	(781)
Total Other Revenue and Other Net (Loss)/Income	**89**	**521**	**219**	**157**	**(551)**

Selling and Distribution Expenses

Selling and distribution expenses primarily consist of (i) marketing reimbursements, which include reimbursements to our distributors under our distributor support program for fixture and store display expenses upon the opening of new retails outlets and expenses incurred by our distributors for marketing and promotional activities; (ii) salaries and benefits for sales and marketing personnel; (iii) office and utilities costs; (iv) packaging costs and (v) advertising and exhibition expenses including television advertisements and outdoor advertisements. For the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, our selling and distribution expenses were approximately RMB33.8 million, RMB43.1 million, RMB49.5 million and RMB22.5 million, respectively. In 2011, advertising and exhibition expenses increased as we incurred approximately RMB4.7 million of expenses for television commercials and outdoor advertisements. In 2012, we reduced the use of television commercials and outdoor advertisements and relied on various other means of advertising, which were less expensive and we believe are more effective in reaching our target consumer groups. We ceased using television commercials in 2013. The following table sets forth a breakdown of our selling and distribution expenses for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2010		2011		2012		2012		2013	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Marketing reimbursements	27,533	81.4	29,751	69.1	38,777	78.3	14,031	73.4	18,157	80.6
Staff costs	2,967	8.8	4,618	10.7	5,115	10.3	2,345	12.3	2,483	11.0
Advertising and exhibition expenses	1,281	3.8	6,427	14.9	2,382	4.8	1,188	6.2	511	2.3
Packaging costs	909	2.7	1,139	2.6	1,589	3.2	686	3.6	735	3.3
Office and utilities costs	112	0.3	364	0.8	975	2.0	393	2.1	404	1.8
Travelling costs	106	0.3	269	0.6	308	0.6	203	1.1	94	0.4
Others	900	2.7	485	1.1	396	0.8	257	1.3	125	0.6
Total Selling and Distribution Expenses	**33,808**	**100.0**	**43,053**	**100.0**	**49,542**	**100.0**	**19,103**	**100.0**	**22,509**	**100.0**

For the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, our selling and distribution expenses represented 10.3%, 11.0%, 9.5% and 8.9%, respectively, of our turnover for the relevant periods.

Administrative and Other Operating Expenses

Our administrative and other operating expenses primarily consist of salaries and benefits for administrative personnel, research and development expenses, fees for professional expenses in relation to legal service and pre-IPO financial advisory services, travelling expenses, other taxes, levies and subcharges and depreciation expenses relating to property, plant and equipment used for administrative purposes. For the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, our administrative and other operating expenses were RMB9.0 million, RMB11.3 million, RMB13.2 million and RMB12.3 million, respectively.

Other taxes, levies and subcharges primarily consist of stamp duty charges.

The following table sets forth a breakdown of our administrative and other operating expenses for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2010		2011		2012		2012		2013	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Staff cost	3,175	35.3	3,998	35.3	4,424	33.4	1,957	34.8	2,302	18.8
Research and development expenses	1,859	20.6	2,116	18.7	2,787	21.1	1,152	20.5	3,763	30.7
Professional expenses	288	3.2	1,470	13.0	1,469	11.1	297	5.3	1,993	16.2
Depreciation and amortization	839	9.3	1,411	12.5	1,350	10.2	681	12.1	663	5.4
Office and utilities expenses	1,060	11.8	804	7.1	1,171	8.8	469	8.3	546	4.5
Other taxes, levies and subcharges	689	7.6	367	3.2	682	5.2	582	10.4	516	4.2
Travelling expenses	542	6.0	509	4.5	617	4.7	253	4.5	436	3.6
Listing expenses	—	—	—	—	—	—	—	—	1,388	11.3
Others(1)	555	6.2	641	5.7	733	5.5	230	4.1	655	5.3
Total Administrative and Other Operating Expenses	**9,007**	**100.0**	**11,316**	**100.0**	**13,233**	**100.0**	**5,621**	**100.0**	**12,262**	**100.0**

(1) "Others" mainly include costs relating to consumables, bank charges and entertainment expenses.

For the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, our administrative and other operating expenses represented 2.8%, 2.9%, 2.5% and 4.8% of our turnover for the relevant periods, respectively.

Finance Costs

Our finance costs represent interest on bank loans. Our finance costs were RMB1.9 million, RMB2.2 million, RMB2.5 million and RMB1.6 million for the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, respectively.

Income Tax

Income tax consists of current tax and movements in deferred tax assets and liabilities. Current tax comprises primarily PRC corporate income tax payable by our PRC subsidiaries. Deferred tax comprises mainly movement in deferred tax assets on recognized deductible temporary differences arising from accrued expenses.

Under the relevant rules and regulations of the Cayman Islands and the BVI, we are not subject to any income tax in the Cayman Islands or the BVI.

No provision was made for Hong Kong Profits Tax as the Group did not earn any assessable profit subject to Hong Kong Profits Tax during the Track Record Period.

As a foreign-invested enterprise engaged in the manufacturing business, our PRC operating subsidiary, Red Kids China, was entitled to two-year tax exemption followed by 50% reduction in the income tax rate commencing from its first profit making year. Accordingly, it is subject to income tax rate of 12.5% from 2010 to 2012 and 25% from 2013 onwards.

Our income tax expenses for the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013 were RMB10.9 million, RMB10.6 million, RMB15.3 million and RMB15.5 million, respectively. Our effective tax rates for the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013 were 12.5%, 12.0%, 11.7% and 26.9%, respectively.

PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

Six months ended June 30, 2013 compared with six months ended June 30, 2012

Turnover

Our turnover increased by RMB76.7 million, or 43.5%, from RMB176.5 million for the six months ended June 30, 2012 to RMB253.2 million for the six months ended June 30, 2013. The increase primarily reflects the increase in the average wholesale selling price of our products from RMB40.7 to RMB45.2 and the increase from 4.3 million to 5.6 million in the volume of products we sold to our distributors. Our average wholesale selling price and sales volume increased for the six months ended June 30, 2013 compared to the same period in 2012 primarily as a result of our further enhanced brand recognition and market acceptance of our products. Our sales volume increased primarily as a result of the increase in sales to our online distributor, RedKids E-commerce, the further enhanced recognition of our brand and the increase in the number of retail outlets for our branded products.

Cost of sales

Our cost of sales increased by RMB45.4 million, or 40.1%, from RMB113.1 million for the six months ended June 30, 2012 to RMB158.5 million for the six months ended June 30, 2013. The increase was primarily due to the increase in our sales volume and the increases in the average cost of raw materials and labor costs.

Gross profit and gross profit margin

As a result of the foregoing, our gross profit increased by RMB31.1 million, or 49.0%, to RMB94.6 million for the six months ended June 30, 2013 from RMB63.5 million for the six months ended June 30, 2012. Our gross profit margin increased from 35.9% for the six months ended June 30, 2012 to 37.4% for the six months ended June 30, 2013, which was primarily due to the increase in average wholesale selling price of our products sold to our online distributor, Red Kids E-commerce, as a result of enhanced recognition of our brand among online customers.

Other revenue and other net (loss)/income

Our other revenue and other net income decreased from RMB0.2 million for the six months ended June 30, 2012 to a loss of RMB0.6 million for the six months ended June 30, 2013. The decrease was primarily because of our net foreign exchange losses relating to cash proceeds from our pre-IPO investment, which we received in Hong Kong dollars and exchanged into RMB.

Selling and distribution expenses

Our selling and distribution expenses increased by RMB3.4 million, or 17.8%, from RMB19.1 million for the six months ended June 30, 2012 to RMB22.5 million for the six months ended June 30, 2013. The increase was primarily due to an increase in marketing reimbursements, which include expenses incurred by our distributors for marketing and promotional activities and reimbursement to distributors for fixture and store display expenses incurred when opening retail outlets or upgrading existing outlets. This increase was partially offset by a decrease in advertising and exhibition expenses following our termination of television advertisements and reduction in outdoor advertisements.

Administrative and other operating expenses

Our administrative and other operating expenses increased by RMB6.7 million, from RMB5.6 million for the six months ended June 30, 2012 to RMB12.3 million for the six months ended June 30, 2013. This increase was primarily due to increases in (i) listing expenses relating to fees for legal, accounting, financial advisory and other professional services; (ii) research and development expenses relating to rental costs for and renovation of our design and research and development center in Shanghai; and (iii) professional expenses resulting from pre-IPO financial advisory services in relation to the Corporate Reorganization.

Finance costs

Our finance costs increased by RMB0.5 million, or 45.5%, from RMB1.1 million for the six months ended June 30, 2012 to RMB1.6 million for the six months ended June 30, 2013. The increase was primarily due to increased short-term bank loans borrowed for working capital purposes.

Income tax

Our income tax increased by RMB11.5 million, from RMB4.0 million for the six months ended June 30, 2012 to RMB15.5 million for the six months ended June 30, 2013. The increase was primarily due to an increase in our taxable income and an increase in our effective tax rate as a result of the expiration of the reduced enterprise income tax rate of 12.5% for our PRC subsidiary, Red Kids China.

Profit for the period

As a result of the foregoing, our profit for the period increased by RMB8.4 million, or 24.9%, from RMB33.8 million for the six months ended June 30, 2012 to RMB42.2 million for the six months ended June 30, 2013.

Year ended December 31, 2012 compared with year ended December 31, 2011

Turnover

Our turnover increased by RMB127.6 million, or 32.5%, from RMB392.4 million for the year ended December 31, 2011 to RMB520.0 million for the year ended December 31, 2012, primarily as a result of the increase in the average wholesale selling price of our products from RMB51.3 to RMB58.3 and the increase from 7.6 million to 8.9 million in the volume of products we sold to our distributors. Our average wholesale selling price increased from 2011 to 2012 primarily as a result of our enhanced brand recognition and market acceptance of our products. Our sales volume increased primarily as a result of (i) the significant increase in our sales to our online distributor, Red Kids E-commerce, (ii) the increase in the total number of retail outlets from 560 as of December 31, 2011 to 594 as of December 31, 2012, and (iii) we moved shipment date of 2013 spring/summer collection from early 2013 to December 2012 due to industry-wide trends to extend sales window of spring collection. Sales to Red Kids E-commerce increased by 194.6% from RMB29.8 million for 2011 to RMB87.8 million for 2012 because (i) there was a further shift in 2012 in consumer habit towards online shopping; (ii) we devoted significant resources to developing online sales of our products, including designing products specifically targeting the younger parents who comprised a large portion of online customers and promoting our products on various online sales platforms; and (iii) our online distributor participated in a few major national online shopping events in 2012, such as the "November 11" and "December 12" national online sales days. The early delivery of the 2013 spring/summer collection from early 2013 to December 2012 increased our turnover in 2012 by RMB45.3 million.

Cost of sales

Our cost of sales increased by RMB75.7 million, or 30.5%, from RMB248.5 million for the year ended December 31, 2011 to RMB324.2 million for the year ended December 31, 2012. This increase was mainly due to the increase in our sales volume and the general increase in the cost of raw materials and labor in China. Our average cost of sales per unit increased from RMB32.5 for the year ended December 31, 2011 to RMB36.3 for the year ended December 31, 2012 primarily as a result of increases in raw material prices and labor costs, which affected both our own production and cost of our purchased products.

Gross profit and gross profit margin

As a result of the foregoing, our gross profit increased by RMB51.9 million, or 36.1%, from RMB143.9 million for the year ended December 31, 2011 to RMB195.8 million for the year ended December 31, 2012. The early delivery of the 2013 spring/summer collection from early 2013 to December 2012 increased our gross profit in 2012 by RMB14.4 million. Our gross profit margin increased from 36.7% for 2011 to 37.7% for 2012, primarily because the increase in average wholesale selling price of our products was higher than the increase in the per unit average cost of our products.

Other revenue and other net (loss)/income

Our other revenue and other net (loss)/income decreased by RMB0.3 million, or 60.0% from RMB0.5 million for the year ended December 31, 2011 to RMB0.2 million for the year ended December 31, 2012. This decrease was primarily as a result of a decrease in the sample creation fees from our OEM customers which was partially offset by an increase in net foreign exchange gain in 2012.

Selling and distribution expenses

Our selling and distribution expenses increased by RMB6.4 million, or 14.8%, from RMB43.1 million for the year ended December 31, 2011 to RMB49.5 million for the year ended December 31, 2012. This increase was primarily due to the increase in marketing reimbursements, which include expenses incurred by our distributors for marketing and promotional activities and reimbursement to distributors for fixture and store display expenses incurred when opening new retail outlets or upgrading existing outlets. This increase was partially offset by a decrease in advertising and exhibition expenses following our reduction of television commercials and outdoor advertisements.

Administrative and other operating expenses

Administrative and other operating expenses increased by RMB1.9 million, or 16.8%, from RMB11.3 million for the year ended December 31, 2011 to RMB13.2 million for the year ended December 31, 2012. This increase was primarily as a result of increases in the salaries and benefits of our administrative personnel in line with general increases in salary levels in the PRC, office and utilities expenses and research and development expenses. The increase in research and development expenses was due to the hiring of designers for our Shanghai design center, which commenced operations in 2012. The increase in office and utilities expenses primarily resulted from the increase in the number of our staff.

Finance costs

Our finance costs increased by RMB0.3 million, or 13.6%, from RMB2.2 million for the year ended December 31, 2011 to RMB2.5 million for the year ended December 31, 2012. This increase was primarily as a result of the general increase in interest rate in the PRC and the increase in the total outstanding amount of our bank loans.

Income tax

Our income tax increased significantly by RMB4.7 million, or 44.3%, from RMB10.6 million for the year ended December 31, 2011 to RMB15.3 million for the year ended December 31, 2012, primarily as a result of the increase in our taxable income.

Profit for the year

As a result of the foregoing, our results improved significantly from a net profit of RMB77.3 million for the year ended December 31, 2011 to a net profit of RMB115.4 million for the year ended December 31, 2012. The early delivery of the 2013 spring/summer collection from early 2013 to December 2012 increased our net profit in 2012 by approximately RMB10.0 million. The estimated increase in our net profit as a result of early delivery of 2013 spring/summer collection was calculated based on our net profit margin for the year ended December 31, 2012 and is included for illustrative purposes only.

Year ended December 31, 2011 compared with year ended December 31, 2010

Turnover

Our turnover increased by RMB65.4 million, or 20.0%, from RMB327.0 million for the year ended December 31, 2010 to RMB392.4 million for the year ended December 31, 2011, primarily as a result of the increase in the average wholesale selling price of our products from RMB47.4 to RMB51.3 and the increase from 6.9 million to 7.6 million in the volume of products we sold to our distributors. Our average wholesale selling price increased from 2010 to 2011 primarily as a result of our enhanced brand recognition and market acceptance of our products. Our sales volume increased primarily as a result of the increase in the total number of retail outlets from 476 as of December 31, 2010 to 560 as of December 31, 2011 following our focused efforts to expand our distribution network.

Cost of sales

Our cost of sales increased by RMB52.9 million, or 27.0%, from RMB195.6 million for the year ended December 31, 2010 to RMB248.5 million for the year ended December 31, 2011. The increase in cost of sales mainly resulted from the increase in our sales volume and labor and raw material costs in China. Our average cost of sales per unit increased from RMB28.3 for the year ended December 31, 2010 to RMB32.5 for the year ended December 31, 2011, primarily due to increases in raw material prices and labor costs, which affected both our own production and cost of our purchased products.

Gross profit and gross profit margin

As a result of the foregoing, our gross profit increased by RMB12.5 million, or 9.5%, from RMB131.4 million for the year ended December 31, 2010 to RMB143.9 million for the year ended December 31, 2011. Our gross profit margin decreased from 40.2% in 2010 to 36.7% in 2011. The decrease in our gross profit margin during this period was mainly because we did not increase the wholesale selling price of our products in proportion to the increase in cost of sales in order to strengthen our competitive position in the industry.

Other revenue and other net (loss)/income

Our other revenue and other net (loss)/income increased from RMB0.1 million for the year ended December 31, 2010 to RMB0.5 million for the year ended December 31, 2011. This increase was primarily as a result of an increase in interest income due to increased bank deposits we pledged as security for bank acceptance bills, which we use to make payments to our suppliers, and fees we recognized relating to the creation of samples for our OEM customers. This increase was partially offset by a decrease in government grants because they were non-recurring in nature.

Selling and distribution expenses

Our selling and distribution expenses increased by RMB9.3 million, or 27.5%, from RMB33.8 million for the year ended December 31, 2010 to RMB43.1 million for the year ended December 31, 2011. This increase was primarily as a result of the increase in advertising and exhibition expenses, salaries and benefits for our sales and marketing staff and marketing reimbursements. Our advertising and exhibition expenses increased significantly in 2011 as a result of our participation in product conventions, television advertisements with CCTV and outdoor advertisements. In 2011, we incurred approximately RMB4.7 million of expenses in connection with television and outdoor advertisement. Our marketing reimbursements increased primarily because we incurred expenses in connection with the retail outlets we opened in 2011 for related store display and promotional activities. The increase in the salaries and benefits for our sales and marketing staff primarily resulted from the expansion of our sales and marketing team and a general increase in salary level in the PRC.

Administrative and other operating expenses

Administrative and other operating expenses increased by RMB2.3 million, or 25.6%, from RMB9.0 million for the year ended December 31, 2010 to RMB11.3 million for the year ended December 31, 2011. This increase was primarily as a result of increases in salaries and benefits for administrative and design and research and development personnel, professional expenses relating to legal service and pre-IPO financial advisory services and depreciation and amortization expenses.

Finance costs

Our finance costs increased significantly by RMB0.3 million, or 15.8%, from RMB1.9 million for the year ended December 31, 2010 to RMB2.2 million for the year ended December 31, 2011. This increase was primarily as a result of the increase in the total amount of bank loans outstanding throughout 2011.

Income tax

Our income tax decreased by RMB0.3 million, or 2.8%, from RMB10.9 million for the year ended December 31, 2010 to RMB10.6 million for the year ended December 31, 2011, primarily as a result of our use of deferred tax assets to offset income tax payable in 2011. In 2010, we made provision for marketing reimbursements payable, which primarily included marketing expense reimbursements for our distributors. We paid income tax for the year 2010 for the amount of the provision, while the payments for such marketing expense reimbursements were actually made in 2011. As a result, we recorded deferred tax assets for 2010, which we utilized in 2011 to offset current income tax payable.

Profit for the year

As a result of the foregoing, our results improved from a net profit of RMB75.9 million for the year ended December 31, 2010 to a net profit of RMB77.3 million for the year ended December 31, 2011.

LIQUIDITY AND CAPITAL RESOURCES

Our primary uses of cash are to fund our working capital requirements, property, plant and equipment and to repay loans and related interest expenses. To date, we have funded our operations principally with cash generated from our operations, capital contributions from our Shareholders and bank loans. In the future, we believe that our liquidity requirements will be satisfied with a combination of cash flows generated from our operating activities, bank loans and other borrowings, net proceeds from the Global Offering and other funds raised from the capital markets from time to time. Any significant decrease in demand for, or pricing of, our products or a significant decrease in the availability of bank loans may adversely impact our liquidity.

Cash flow

As of December 31, 2010, 2011 and 2012 and June 30, 2013, we had cash and cash equivalents of RMB55.2 million, RMB4.0 million, RMB8.9 million and RMB186.4 million, respectively. The following table sets forth our cash flows for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2010	2011	2012	2012	2013
		RMB'000		RMB'000	
Net cash (used in)/generated from operating activities	(8,359)	(2,318)	15,137	33,945	108,714
Net cash (used in)/generated from investing activities	(2,395)	(298)	145	108	(51,520)
Net cash generated from/(used in) financing activities	61,531	(49,586)	(10,392)	(15,511)	118,590
Net increase/(decrease) in cash and cash equivalents	50,777	(52,202)	4,890	18,542	175,784
Cash and cash equivalents at January 1	3,693	55,210	4,004	4,004	8,894
Effect of foreign exchange rate changes	740	996	—	(7)	1,746
Cash and cash equivalents at December 31/June 30	55,210	4,004	8,894	22,539	186,424

Cash flows (used in)/generated from operating activities

For the six months ended June 30, 2013, our net cash generated from operating activities amounted to RMB108.7 million, primarily reflecting our profit before taxation of RMB57.7 million, as positively adjusted primarily by (i) RMB60.6 million decrease in trade and other receivables which resulted from (a) us moving the delivery date of our 2013 spring/summer collection from early 2013 to December 2012 because of feedback we had received from our distributors in 2011 with regard to the extension of the sales window of our spring/summer collection and (b) our trade receivables as of June 30, 2013 primarily include sales of our spring/summer collection which has a lower average wholesale selling price than our fall/winter collection, and (ii) RMB1.9 million decrease in pledged deposits, and partially offset by (i) RMB3.3 million increase in inventories which resulted from increases in our work in progress goods and finished goods due to larger volumes of our products produced. The increase in our volume of products produced was in line with the growth in our sales; and (ii) a PRC income tax payment of RMB14.0 million.

For the year ended December 31, 2012, our net cash generated from operating activities amounted to RMB15.1 million, primarily reflecting our profit before taxation of RMB130.8 million, as positively adjusted primarily by (i) RMB53.9 million decrease in inventories because (a) our sales increased significantly in 2012 compared with 2011, in particular during the last quarter of 2012, (b) we had less raw materials and work in progress in stock as we outsourced the production of a higher percentage of our products, and (c) we moved the delivery date of our 2013 spring collection from early 2013 to December 2012 and, as a result, finished goods balance as of December 31, 2012 decreased as compared with December 31, 2011 and (ii) RMB5.7 million non-cash operating profit and loss items including depreciation, amortization, finance costs and interest income, and partially offset primarily by (i) RMB139.7 million increase in trade and other receivables which resulted from our overall sales growth and significant sales increase in the last quarter of 2012 because (a) we moved shipment date of 2013 spring/summer collection from early 2013 to December 2012 and (b) sales to our online distributor increased significantly in the last quarter due in part to certain major national online shopping events our online distributor participated in, such as the "November 11" and "December 12" national online sales days, (ii) RMB19.3 million decrease in trade and other payables to our suppliers, OEMs and related parties, (iii) RMB1.0 million increase in pledged deposits and (iv) a PRC income tax payment of RMB15.3 million.

For the year ended December 31, 2011, our net cash used in operating activities amounted to RMB2.3 million, primarily reflecting our profit before taxation of RMB87.9 million, as positively adjusted primarily by RMB5.6 million of non-cash operating profit and loss items including depreciation, amortization, finance costs and interest income, and offset primarily by (i) RMB50.5 million increase in trade and other receivables which resulted from the growth in our overall sales and the increase from 30 days to 90 days in the credit period we granted to customers, (ii) RMB20.3 million decrease in trade and other payables as we paid back our suppliers, OEMs and related parties, (iii) RMB11.2 million increase in inventories primarily as a result of an increase in our raw materials and work in progress goods due to our business growth, (iv) RMB2.9 million increase in pledged deposits, which were bank deposits pledged as security for bills payables and (v) a PRC income tax payment of RMB10.9 million.

For the year ended December 31, 2010, our net cash used in operating activities amounted to RMB8.4 million, primarily reflecting our profit before taxation of RMB86.8 million, as positively adjusted primarily by (i) RMB4.9 million of non-cash operating profit and loss items including depreciation, amortization, finance costs and interest income, (ii) RMB0.6 million decrease in pledged deposits, which were bank deposits pledged as security for bills payables and (iii) RMB10.2 million increase in trade and other payables due to our suppliers, and offset primarily by (i) RMB76.0 million increase in trade and other receivables which resulted from the overall growth in our sales, (ii) RMB28.7 million increase in inventories primarily as a result of an increase in our finished goods due to the growth in our overall sales, and (iii) a PRC income tax payment of RMB6.2 million.

Cash flows (used in)/generated from investing activities

For the six months ended June 30, 2013, our net cash used in investing activities amounted to RMB51.5 million, primarily reflecting our cash outflows of RMB51.7 million for the purchase of property, plant and equipment, which were partially offset by RMB0.2 million of interest received on our bank deposits.

For the year ended December 31, 2012, our net cash generated from investing activities amounted to RMB0.1 million, primarily reflecting cash inflow of RMB0.2 million from the interest received on our bank deposits, which were partially offset by RMB0.1 million of payments for the purchase of property, plant and equipment.

For the year ended December 31, 2011, our net cash used in investing activities amounted to RMB0.3 million, reflecting cash outflows primarily due to an RMB0.6 million payment for the purchase of property, plant and equipment, which were partially offset by RMB0.3 million of interest received on our bank deposits.

For the year ended December 31, 2010, our net cash used in investing activities amounted to RMB2.4 million, reflecting cash outflows primarily due to an RMB2.5 million payment for the purchase of property, plant and equipment, which were partially offset by RMB0.1 million of interest received on our bank deposits.

Cash flows generated from/(used in) financing activities

For the six months ended June 30, 2013, our net cash generated from financing activities amounted to RMB118.6 million, primarily reflecting cash inflows of (i) RMB90.4 million in receipts advanced from the parent company and related parties and (ii) RMB54.7 million in proceeds from bank loans, which were partially offset by (i) RMB24.9 million in repayment of bank loans and (ii) interest paid of RMB1.6 million.

For the year ended December 31, 2012, our net cash used in financing activities amounted to RMB10.4 million, primarily reflecting cash outflows of (i) RMB28.4 million in repayment of bank loans; (ii) interest payment of RMB2.5 million; and (iii) net repayment to the parent company and a related party of RMB24.3 million, which were partially offset by RMB44.8 million in proceeds from bank loans.

For the year ended December 31, 2011, our net cash used in financing activities amounted to RMB49.6 million, primarily reflecting cash outflows of (i) RMB53.5 million in repayment of our bank loans; (ii) net repayment to the parent company of RMB27.3 million and (iii) interest payment of RMB2.2 million, which were partially offset by RMB33.4 million in proceeds from bank loans.

For the year ended December 31, 2010, our net cash generated from financing activities amounted to RMB61.5 million, primarily reflecting cash inflows of (i) RMB42.5 million in proceeds from bank loans; and (ii) net advance from parent company and a related party of RMB46.9 million, which were partially offset by (i) RMB26.0 million in repayment of bank loans; and (ii) interest paid of RMB1.9 million.

Current Assets and Liabilities

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

	As of December 31,			As of June 30,	As of October 31,
	2010	2011	2012	2013	2013
		RMB'000		RMB'000	RMB'000
Current assets					
Inventories	70,579	81,809	27,873	31,222	36,298
Trade and other receivables	93,106	143,629	283,301	222,709	202,802
Pledged bank deposits	—	2,850	3,880	2,000	—
Cash and cash equivalents	55,210	4,004	8,894	186,424	260,817
Total current assets	218,895	232,292	323,948	442,355	499,917
Current liabilities					
Bank loans	42,500	22,400	38,800	68,590	68,940
Trade and other payables	182,445	133,069	89,483	180,787	182,438
Current tax payable	7,299	4,939	6,336	7,512	4,953
Total current liabilities	232,244	160,408	134,619	256,889	256,331
Net current (liabilities)/assets	**(13,349)**	**71,884**	**189,329**	**185,466**	**243,586**

As of December 31, 2010, we recorded net current liabilities of RMB13.3 million, primarily because we had RMB137.1 million in short-term loans from our Controlling Shareholder and related parties, which were used to finance our working capital needs. Our working capital position improved during the years ended December 31, 2011 and 2012.

We recorded net current assets of RMB71.9 million as of December 31, 2011. This improvement was primarily due to (i) an increase of RMB50.5 million in trade and other receivables and (ii) a decrease of RMB49.3 million in trade and other payables, as partially offset by a decrease of RMB51.2 million in cash and cash equivalents. Our trade and other receivables increased by RMB50.5 million primarily as a result of the growth in our overall sales and the increase in the credit period we granted to customers from 30 days in 2010 to 90 days in 2011. Our trade and other payables decreased by RMB49.3 million primarily as a result of decreases in (i) amounts due to related parties because we repaid some of the advances from our related parties and (ii) other payables and accruals because we first implemented our distributor support program and made accruals in 2010 but only began to make payments to distributors under this program in 2011.

We recorded net current assets of RMB189.3 million as of December 31, 2012. This improvement was primarily due to (i) an increase of RMB139.7 million in trade and other receivables and (ii) a decrease of RMB43.6 million in trade and other payables, as offset in part by (i) a decrease of RMB53.9 million in inventories and (ii) an increase of RMB16.4 million in bank loans.

Our trade and other receivables increased by RMB139.7 million primarily due to our overall sales growth and significant sales increase in the last quarter of 2012 because (i) we moved delivery date of 2013 spring/summer collection from early 2013 to December 2012 and (ii) sales to our online distributor increased significantly in the last quarter of 2012 due in part to certain major national online shopping events our online distributor participated in, such as the "November 11" and "December 12" national online sales days. Our trade and other payables decreased by RMB43.6 million primarily because (i) we repaid in 2012 the amount due to our Controlling Shareholder that were outstanding as of December 31, 2011 and (ii) amounts due to related parties decreased as we repaid some of the advances from our related parties. Our inventories decreased by RMB53.9 million because (i) our sales increased significantly in 2012 compared with 2011, in particular during the last quarter of 2012 and (ii) we had less raw materials and work in progress in stock as we outsourced the production of a higher percentage of our products.

We recorded net current assets of RMB185.5 million as of June 30, 2013 a result of (i) RMB222.7 million in trade and other receivables, (ii) RMB186.4 million in cash and cash equivalents, (iii) RMB2.0 million in pledged bank deposits and (iv) RMB31.2 million in inventories, which was partially offset by balances of (i) RMB180.8 million in trade and other payables, (ii) RMB68.6 million in bank loans and (iii) RMB7.5 million in current tax payable.

Working Capital

Taking into consideration our cash resources, cash flows from our operations and estimated net proceeds from the Global Offering, our Directors believe, after due and careful inquiry, that we have sufficient working capital for at least the 12 months commencing from the date of this prospectus.

Inventories

Our inventories primarily consist of (i) finished goods manufactured by us or procured from our OEMs; (ii) work in progress products manufactured by us; and (iii) raw materials used in our production.

The following table sets forth the breakdown of our inventories as of the dates indicated:

	As of December 31,			As of June 30,
	2010	2011	2012	2013
		RMB'000		RMB'000
Raw materials	840	9,386	4,476	3,106
Work in progress	6,711	13,748	9,796	10,626
Finished goods	63,028	58,675	13,601	17,490
	70,579	**81,809**	**27,873**	**31,222**

Our inventories increased by 15.9% from RMB70.6 million as of December 31, 2010 to RMB81.8 million as of December 31, 2011, primarily as a result of an increase in our raw materials and work in progress goods due to our increased production. Our inventories decreased to RMB27.9 million as of December 31, 2012, primarily because (i) our sales increased significantly in 2012 compared with 2011, in particular during the last quarter of 2012; (ii) we had less raw materials and work in progress in stock as we outsourced the production of a higher percentage of our products; and (iii) we moved the delivery date of our 2013 spring/summer collection from early 2013 to December 2012, a trend which we intend to continue in the future, and, as a result, finished goods balance as of December 31, 2012 decreased as compared with

December 31, 2011. Our inventories increased by 11.8% from RMB27.9 million as of December 31, 2012 to RMB31.2 million as of June 30, 2013, primarily because of increases in our work in progress goods and finished goods due to larger volumes of our products produced. The increase in our volume of products produced was in line with the growth in our sales.

As of June 30, 2013, 100.0% of our inventories as of December 31, 2012 had been sold or utilized. As of October 31, 2013, 99.7% of our inventories as of June 30, 2013 had been sold or utilized.

The following table sets forth our average inventory turnover days as of the dates indicated:

	As of December 31,			As of June 30,
	2010	2011	2012	2013
Average inventory turnover days(1)	105	112	62	34

(1) Average inventory turnover days equal to the average of the opening and closing balances of inventories of the relevant period divided by cost of sales of the relevant year and multiplied by 365/181 days.

The average inventory turnover days increased from 105 days for the year ended December 31, 2010 to 112 days for the year ended December 31, 2011 primarily as a result of the increase in raw materials as we expanded our business and production, and decreased to 62 days for the year ended December 31, 2012 and further to 34 days for the six months ended June 30, 2013 primarily as a result of the significant decrease in our inventories as of December 31, 2012 due to reasons discussed above.

Trade and Other Receivables

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

	As of December 31,			As of June 30,
	2010	2011	2012	2013
		RMB'000		RMB'000
Trade receivables				
— third parties	48,096	104,418	196,367	149,427
— related parties	919	11,138	5,415	8,215
Trade receivables	49,015	115,556	201,782	157,642
Prepayments to suppliers	40	4,908	42,033	62,365
Amounts due from related parties	36,091	22,663	1,000	—
Amount due from the ultimate controlling party	—	—	36,429	—
Other deposits, prepayments and receivables	7,960	502	2,057	2,702
	93,106	**143,629**	**283,301**	**222,709**

Trade receivables

Our trade receivables primarily relate to receivables for goods sold to distributors. Our trade receivables increased significantly from RMB49.0 million as of December 31, 2010 to RMB115.6 million as of December 31, 2011, primarily as a result of the growth in our overall sales and the increase from 30 days to 90 days in the credit period we granted to customers. Our trade receivables further increased by 74.6% from RMB115.6 million as of December 31, 2011 to RMB201.8 million as of December 31, 2012 primarily because of the overall growth in our sales and significant sales increase in the last quarter of 2012 because (i) we moved the delivery of 2013 spring/summer collection from early 2013 to December 2012, a trend which we intend to continue in the future, and (ii) sales to our online distributor increased significantly in the last quarter due in part to certain major national online shopping events our online distributor participated in, such as the "November 11" and "December 12" national online sales days. Our trade receivables decreased by RMB44.2 million, or 21.9%, from RMB201.8 million as of December 31, 2012 to RMB157.6 million as of June 30, 2013, primarily because (i) we moved the delivery date of our 2013 spring/summer collection from early 2013 to December 2012 according to the feedback we had received from our distributors in 2011 with regard to the extension of the sales window of our spring/summer collection and (ii) our trade receivables as of June 30, 2013 primarily include sales of our spring/summer collection which has a lower average wholesale selling price than our fall/winter collection.

We have adopted certain measures to manage our trade receivables. We have designated certain employees to follow up with our distributors regularly to collect outstanding trade receivables. In our selection of distributors in the future, we plan to conduct a more detailed review of the distributor candidates' credit history, resources and financial capabilities to ensure that they are able to pay the purchase price within the credit period granted by us.

The following table sets forth the aging analysis of our trade receivables as of the dates indicated:

	As of December 31,			As of June 30,
	2010	2011	2012	2013
		RMB'000		RMB'000
Within 3 months	49,008	95,440	200,083	157,508
More than 3 month but within 6 months	7	5,426	1,698	133
More than 6 months but within 1 year	—	9,489	1	1
More than 1 year	—	5,201	—	—
	49,015	**115,556**	**201,782**	**157,642**

As of June 30, 2013, 100.0% of our trade receivables as of December 31, 2012 had been received. As of October 31, 2013, all of our trade receivables as of June 30, 2013 have been settled.

The following table sets forth the average turnover days of our trade receivables as of the dates indicated:

	As of December 31,			As of June 30,
	2010	2011	2012	2013
Average turnover days of our trade receivables(1)	30	77	111	128

(1) Average turnover days of our trade receivables equal to the average of the opening and closing balances of trade and bills receivables for the relevant period divided by turnover and multiplied by 365/181 days.

The average turnover days of our trade receivables increased from 30 days for the year ended December 31, 2010 to 77 days for the year ended December 31, 2011, primarily as a result of the increase from 30 days to 90 days in the credit period we granted to customers. The average turnover days of our trade receivables further increased to 111 days for the year ended December 31, 2012 and to 128 days for the six months ended June 30, 2013. Our average turnover days increased from 2011 to 2012 primarily as a result of the significant increase in our trade receivables as of December 31, 2012, which in turn, was due to the fact that we moved the delivery date of our 2013 spring/summer collection from early 2013 to December 2012. Our average turnover days for the year ended December 31, 2012 and for the six months ended June 30, 2013 exceeded our 90-day credit period primarily because of the same reason as above.

The following table sets forth the sales breakdown by credit period and full payment upon delivery during the years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2012 and 2013:

	For the year ended December 31,			For the six months ended June 30,	
	2010	2011	2012	2012	2013
		RMB'000		RMB'000	
Full payment upon delivery	—	—	—	—	—
Deposit in advance and a 30-day credit for remaining balance	11,912	7,488	2,742	1,909	635
30-day credit period	315,062	—	—	—	—
90-day credit period	—	384,881	517,245	174,639	252,550
Total	326,974	392,369	519,987	176,548	253,185

Prepayments to suppliers

The following table sets forth the aging analysis of the prepayments to suppliers as of December 31, 2010, 2011 and 2012 and June 30, 2013:

	As of December 31,			As of June 30,
	2010	2011	2012	2013
		RMB'000		RMB'000
Within three months	—	4,904	41,339	61,280
Three to six months	36	—	690	—
Six months to 12 months	1	—	—	1,081
Over 12 months	3	4	4	4
	40	4,908	42,033	62,365

Our prepayments to suppliers increased from RMB40,000 as of December 31, 2010 to RMB4.9 million as of December 31, 2011 primarily because of the increase in proportion of products we outsourced to OEMs. In addition, the increase in prepayments to OEMs was also due to our appointment of 11 new OEMs. Due to the fact that we were new customers to such OEMs, we were generally required to pay a higher proportion of the total purchase price as prepayments. Our prepayments to suppliers further increased to RMB42.0 million as of December 31, 2012 primarily due to (i) the increase in transaction volume with our OEMs to support the growth in our business; (ii) the increase in proportion of products we outsourced to OEMs as compared to our in-house production; (iii) the Group has secured better commercial terms, including lower per unit price charged by certain OEMs for certain products through increasing its prepayments to OEMs; and (iv) the prioritized delivery by certain OEMs of the Group's 2013 spring/summer collections as mutually agreed and planned. The Directors confirm that the OEM agreements have been negotiated at arm's length basis and in good faith. We believe the our level of prepayments to OEMs in 2012 were in line with the industry practice. Our prepayments to suppliers was RMB62.4

million as of June 30, 2013 primarily reflecting of the orders we placed for the 2013 autumn/winter collection in May/June of 2013. Such prepayment balance reflect approximately 30% of the total amount of purchase orders we placed with our OEMs for the 2013 autumn/winter collections.

During the Track Record Period, all of our prepayments to suppliers were made according to the respective purchase agreements, which in return were substantially backed-up by the sales orders placed during our two sales fairs.

Our Directors confirmed that as of October 31, 2013, 99.9% of the prepayments to suppliers as of June 30, 2013 have been settled.

Other receivables

Other receivables mainly comprise prepayments to suppliers, amounts due from related parties and the Controlling Shareholder, and other deposits, prepayments and receivables.

Other deposits, prepayments and receivables amounted to RMB8.0 million, RMB0.5 million, RMB2.1 million and RMB2.7 million as of December 31, 2010, 2011 and 2012 and June 30, 2013, respectively. The significant decrease in deposits, prepayments and other receivables as of December 31, 2011 as compared to December 31, 2010 was due to repayments of advances from an independent third party, Sunsea (Fujian) Garment Ltd. (太陽海(福建)製衣有限公司). One of the directors of Sunsea (Fujian) Garment Ltd. (太陽海（福建）製衣有限公司), Mr. Ding Mingxiong, is a business contact of Mr. Ding. We advanced an interest-free loan to Sunsea (Fujian) Garment Ltd. (太陽海(福建)製衣有限公司) primarily for its working capital purposes. We believe advances of such interest-free loans amongst business contacts occur from time to time in the PRC. The significant increase in other deposits, prepayments and receivables as of December 31, 2012 as compared to December 31, 2011 was due to advances made in 2012 to an interior decoration company for materials to be used in the interior decoration of the new office we rented in Shanghai in 2012.

Amounts due from our related party, Fujian Hopeland Import & Export (福建宏潤進出口貿易有限公司), decreased from RMB36.1 million as of December 31, 2010 to RMB22.7 million as of December 31, 2011 to RMB1.0 million as of December 31, 2012, and further decreased to nil as of June 30, 2013 as a result of repayments from Fujian Hopeland Import & Export (福建宏潤進出口貿易有限公司) for advances we previously made to them for working capital purposes. Amount due from the ultimate controlling party were RMB36.4 million as of December 31, 2012 as a result of a loan to Mr. Ding for his real estate investments unrelated to our core business. This loan had been repaid in full as of May 31, 2013. Our Directors confirm that we do not intend to continue to make loans to our Controlling Shareholder after the Listing.

According to our PRC legal advisers, Jingtian & Gongcheng, such advancing activities between enterprises did not comply with certain provisions of the Lending General Provisions (貸款通則) promulgated by the PBOC in 1996. According to the Lending General Provisions (貸款通則), in a case where enterprises engage in borrowing and lending with other enterprises without authorization, the PBOC may impose a fine on the lending party in an amount equal to one to five times of the illegal proceeds generated from the lending activity, and concurrently, invalidate such lending activity. Our PRC legal adviser, Jingtian & Gongcheng, are of the view that, as we (i) did not receive any interest income from the lending activities; and (ii) we had received settlement of our advances to the third parties in May 2013, the risk of the PBOC imposing any penalty on us is low. Our Directors confirm that we will not continue such lending activities to third parties after the Listing.

Trade and Other Payables

The following table sets forth the components of our trade and other payables as of the dates indicated:

	As of December 31,			As of June 30,
	2010	2011	2012	2013
		RMB'000		RMB'000
Trade payables				
— third parties	6,135	2,569	4,953	9,800
Bills payable	—	5,903	6,146	5,000
Trade and bills payables	6,135	8,472	11,099	14,800
Receipts in advance				
— third parties	5,157	105	577	604
— related parties	1,606	—	—	—
Amount due to the ultimate controlling party	29,035	29,043	—	—
Amounts due to related parties	108,104	80,797	56,383	146,765
Other payables and accruals				
— marketing reimbursements	19,786	—	—	3,813
— taxes payable	2,978	5,066	9,533	6,066
— salaries and benefits	9,401	9,297	11,870	8,739
— Other payables to third parties	243	289	21	—
Total	**182,445**	**133,069**	**89,483**	**180,787**

Trade and bills payables

Trade and bills payables primarily consist of payments we owe to suppliers. Our trade and bills payables increased from RMB6.1 million as of December 31, 2010 to RMB8.5 million as of December 31, 2011 primarily because our purchases of raw materials and finished products increased in line with the increase in our sales. Our trade and bills payables further increased to RMB11.1 million as of December 31, 2012 primarily because our purchases of raw materials and finished products increased in line with the increase in our sales. Our trade and bills payable increased to RMB14.8 million as of June 30, 2013 primarily because of our purchases of raw materials and finished products increased in line with the increase in our sales.

As of October 31, 2013, 100.0% of our trade and bills payables as of June 30, 2013 had been settled.

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

	As of December 31,			As of June 30,
	2010	2011	2012	2013
		RMB'000		RMB'000
Within 3 months	6,135	6,456	11,099	14,710
More than 3 months but within 6 months	—	2,001	—	90
More than 6 months but within 1 year	—	15	—	—
	6,135	**8,472**	**11,099**	**14,800**

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

	As of December 31,			As of June 30,
	2010	2011	2012	2013
Average turnover days of trade and bills payables(1)	13	11	11	15

(1) Average turnover days of our trade and bills payables are equal to the average of the opening and closing balances of trade and bills payables of the relevant period divided by cost of sales and multiplied by 365 days/181 days.

The average turnover days of our trade and bills payables decreased from 13 days for the year ended December 31, 2010 to 11 days for the year ended December 31, 2011, remained the same at 11 days for the year ended December 31, 2012 and increased to 15 days for the six months ended June 30, 2013. Our average turnover days of trade and bills payables were relatively short primarily because our OEMs generally require prepayments equal to 30%–50% of the total purchase price.

Other payables

Other payables primarily consist of receipts in advance, amount due to the ultimate controlling party, amounts due to related parties, and other payables and accruals.

Receipts in advance from third parties primarily represent prepayments and deposits received from our OEM service customers, and also included prepayments from some of our distributors for 2010. Receipts in advance from third parties significantly decreased from RMB5.2 million as of December 31, 2010 to RMB0.1 million as of December 31, 2011 because we stopped requiring prepayments from distributors in 2011 and because of a decrease in our OEM service business. Even though our OEM service business continued to decrease in 2012, receipts in advance from third parties increased to RMB0.6 million as of December 31, 2012 because of a deposit received from an OEM service customer near the end of 2012.

Amount due to the ultimate controlling party primarily include an interest free loan which Mr. Ding provided to us for working capital purposes, which had been settled before December 31, 2012. Amounts due to related parties relate to represent advances to us from our related parties for working capital purposes. Amounts due to related parties which includes interest-free loans from Mr. Ding Peiyuan, Ms. Ding Lizhen and Think Wise, decreased from RMB108.1 million as of December 31, 2010 to RMB80.8 million as of December 31, 2011 and then to RMB56.4 million as of December 31, 2012 as we repaid these advances using cash generated from our operating activities. Our amounts due to related parties increased to RMB146.8 million as of June 30, 2013 because we received cash proceeds from pre-IPO investments through our related party, Think Wise. As of June 30, 2013, we have settled the amounts due to Mr. Ding Peiyuan and Ms. Ding Lizhen using internal resources. In addition, our Directors confirm that amounts due to Think Wise will be waived prior to the Listing. According to our PRC legal adviser, Jingtian & Gongcheng, interest-free loans from natural persons to corporate entities are not restricted under PRC laws and regulations. Thus, our loans from our Controlling Shareholder and related parties do not violate relevant PRC laws and regulations.

Other payables and accruals primarily include marketing reimbursements, taxes payable, accrued salaries and benefits and provision for social insurance payable. Marketing reimbursements include reimbursements to distributors under our distributor support program for fixture and store display expenses and promotional expenses, which are payable only after distributors have reached certain sales targets in our distribution agreements with them. Other payables and accruals decreased significantly from RMB32.4 million as of December 31, 2010 to RMB14.7 million as of December 31, 2011 primarily because our marketing reimbursements payable decreased from RMB19.8 million as of December 31, 2010 to nil as of December 31, 2011 because we first implemented our distributor support program and began accruing marketing reimbursements in 2010 but only started making payments to distributors under the distributor support program in 2011. This was partially offset by an increase in taxes payable from RMB3.0 million as of December 31, 2010 to RMB5.1 million as of December 31, 2011 as a result of the increase in our sales and taxable income. Other payables and accruals increased from RMB14.7 million as of December 31, 2011 to RMB21.4 million as of December 31, 2012 primarily because (i) taxes payable increased from RMB5.1 million as of December 31, 2011 to RMB9.5 million as of December 31, 2012 as a result of the increase in our sales and taxable income; and (ii) accrued salaries and benefits and provision for social insurance payable together increased from RMB9.3 million as of December 31, 2011 to RMB11.9 million as of December 31, 2012 as a result of the expansion of our workforce and the general increase in salary levels in the PRC. Other payables and accruals decreased from RMB21.4 million as of December 31, 2012 to RMB18.6 million as of June 30, 3013 primarily because decreases in taxes payable. Our Directors confirm that the amounts due to related parties as of June 30, 2013 represent the amount due to Think Wise, which will be waived prior to the Listing.

CAPITAL EXPENDITURES

Historical Capital Expenditures

Our capital expenditures have principally consisted of purchases of buildings, machinery, motor vehicles and furniture, fixtures and equipment and construction in progress costs. For the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, we incurred capital expenditures in the amounts of RMB2.4 million, RMB0.6 million, RMB0.1 million and nil, respectively. The following table sets out our historical capital expenditures during the periods indicated:

	Year ended December 31,			Six months ended June 30,
	2010	2011	2012	2013
		RMB'000		RMB'000
Machinery	2	41	—	—
Motor vehicles	650	—	34	—
Furnitures, fixtures and equipment	380	515	33	—
Construction in progress	1,396	—	—	—
Total	**2,428**	**556**	**67**	**—**

The capital expenditures incurred in the year ended December 31, 2010 primarily related to construction in progress costs related to our Quanzhou office and purchases of motor vehicles and office equipments. The capital expenditures incurred in the year ended December 31, 2011 primarily related to purchases of machinery and office equipments. The capital expenditure incurred in the year ended December 31, 2012 primarily related to purchases of motor vehicles and office equipment.

Planned Capital Expenditures

We currently expect to incur an additional RMB17.3 million in capital expenditures through the year ending December 31, 2013 in relation to purchase of the property for our Shanghai office, establishment of self-operated retail outlets and enhancing our design, research and development capabilities.

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

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

CONTRACTUAL COMMITMENTS

Capital Commitments

Our capital commitments primarily relate to purchase of an office building. The following table sets forth a summary of our capital commitments as of the dates indicated:

	As at December 31,			As at June 30,
	2010	2011	2012	2013
	RMB'000			RMB'000
Contracted for Office building	—	—	—	63,250

Operating Lease Commitments

During the Track Record Period, we leased a number of properties under operating leases. The table below sets forth our future minimum lease payments payable under non-cancellable operating leases as of the dates indicated:

	As of December 31,			As of June 30,
	2010	2011	2012	2013
	RMB'000			RMB'000
Within 1 year	14	90	741	556
After 1 year but within 5 years	—	133	1,482	1,111
Total	**14**	**223**	**2,223**	**1,667**

INDEBTEDNESS

Bank Loans

Our bank loans primarily consisted of short-term working capital loans. All of our total loans and bank loans as of December 31, 2010, 2011 and 2012 were due within one year and were unsecured. Our total loans and bank loans as of June 30, 2013 were due within one year and RMB28.0 million of our bank loans were secured by lease prepayments and three of our buildings in Quanzhou City. Our bank loans as of December 31, 2010, 2011 and 2012 and June 30, 2013, for the purpose of calculating our indebtedness, were as follows:

	As of December 31,			As of June 30,	As of October 31,
	2010	2011	2012	2013	2013
		RMB'000		RMB'000	RMB'000
Bank loans					
— unsecured	42,500	22,400	38,800	40,590	40,940
— secured	—	—	—	28,000	28,000
Total	**42,500**	**22,400**	**38,800**	**68,590**	**68,940**

The above bank loans are all denominated in the RMB. Our bank loans bore effective interest rates ranging from 6.258% to 6.903% per annum for the year ended December 31, 2010, 6.736% per year for the year ended December 31, 2011, 7.325% per year for the year ended December 31, 2012 and 6.865% per annum for the six months ended June 30, 2013. We primarily used our bank loans as general working capital during the Track Record Period.

As of December 31, 2010, 2011, and 2012 our bank loans in the total amount of RMB25.0 million, nil and RMB31.9 million were personal guarantees provided by Mr. Ding. The Directors confirm that the personal guarantees by Mr. Ding will be released upon Listing.

As of October 31, 2013, being the most recent practicable date for the purpose of this indebtedness statement in this prospectus, we had RMB76.0 million of revolving credit facilities made available to us, of which RMB68.9 million were utilized.

CONTINGENT LIABILITIES

As of December 31, 2010, 2011 and 2012 and June 30, 2013, we provided guarantees in respect of bank loans made to related parties and third parties. We provided guarantees to support the business development of related parties that are owned by Mr. Ding Peiyuan and Mr. Ding. We provided a guarantee to support the business development of Fujian Hopeland Import & Export (福建宏潤進出口貿易有限公司), an entity owned by Mr. Ding Peiyuan and Mr. Ding Weizhu, involved in trading of chemical materials. We also secured our buildings and lease prepayments for certain banking facilities of Red Kids (Fujian) Children's Articles Co., Ltd. ("Red Kids Fujian") in 2010 and 2012, which is an entity owned by Mr. Ding. Red Kids Fujian was historically engaged in the OEM production of apparel, shoes and socks but commenced to wind down its operations in late 2009 and had negligible business operation in 2010 and 2011. Red Kids Fujian's banking facilities secured by the Group's assets were used to settle balances resulting from its historical business transactions. We also provided guarantees for third parties, which primarily consisted of (i) cross guarantees with third parties for each other's bank loans to support each other's business development and (ii) guarantees for our suppliers to support their businesses and to develop favorable relationships. These third parties primarily engage in the production of clothing and packaging boxes. The provisions of our guarantees are within industry norm. Our maximum liability under these guarantees is as follows:

	As of December 31,			As of June 30,
	2010	2011	2012	2013
		RMB'000		RMB'000
Guarantees for related parties	20,000	45,000	29,000	25,000
Guarantees for third parties	30,000	110,000	106,600	106,600
Total	**50,000**	**155,000**	**135,600**	**131,600**

Our Directors confirm that all of these guarantees will be released upon the Listing and thus they believe no provision is required for the guarantees.

LISTING EXPENSES

Our estimated total listing expenses amount to approximately RMB35.1 million. In accordance with IAS32, transaction costs of an equity transaction are accounted for as a deduction from equity to the extent they are incremental costs directly attributable to the equity transaction that otherwise would not have been incurred. Listing expenses that are wholly directly attributable to the issue of Shares in the Global Offering, including underwriting commission of approximately RMB7.5 million, would be accounted for as a deduction from equity when the Global Offering is completed. The remaining costs of RMB27.6 million include mainly the fees of Joint Sponsors, legal advisers and reporting accountants and are considered to be related to the listing of Shares in issue as of the Latest Practicable Date and Shares to be issued under the Capitalization Issue and Global Offering. Accordingly, such costs are allocated by reference to the number of Shares to be issued in the Global Offering over the total number of Shares to be listed, and are charged to share premium and profit or loss respectively. Our Directors consider that the above accounting treatment is in line with IAS32. Based on an Offer Price of HK$1.96 per Offer Share, representing the mid-point of the indicative Offer Price range, the table below sets forth the allocation of listing expenses between the amounts recognized or to be recognized as expenses in the statements of comprehensive income and as prepayment in the statements of financial position:

	During the Track Record Period	For four months ended October 31, 2013	Until the completion of the Global Offering	Total amounts
	RMB in million	RMB in million	RMB in million	RMB in million
Listing expenses recognized or to be recognized as expenses in the statements of comprehensive income	3.4(1)	3.6	15.1	22.1
Listing expenses recognized or to be recognized as prepayment, which would be offset against share premium upon Listing	1.7	0.9	10.4	13.0
Total	**5.1**	**4.5**	**25.5**	**35.1**

Note:

(1) Listing expenses of RMB3.4 million recognized in the statements of comprehensive income during the Track Record Period were reflected in professional expenses and listing expenses under our administrative and other operating expenses.

The listing expenses set forth above are current estimates for reference only, and the final amount to be recognized to the consolidated statement of comprehensive income of our Group or to be capitalized is subject to adjustment based on audit and the then changes in variables and assumptions. We do not expect these expenses to have a material impact on our business and results of operations for the year ending December 31, 2013.

DISCLAIMER

Except as disclosed above, as of October 31, 2013, being the latest practicable date for determining our indebtedness, we did not have any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptable credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities.

Our Directors confirm that there has not been any material change in our indebtedness and contingent liabilities since October 31, 2013 up to the date of this prospectus.

FINANCIAL RATIOS

	Year ended/as of December 31,			Six months ended/as of June 30,
	2010	2011	2012	2013
Gross profit margin(1)	40.2%	36.7%	37.7%	37.4%
Net profit margin(2)	23.2%	19.7%	22.2%	16.7%
Current ratio(3)	0.9	1.4	2.4	1.7
Quick ratio(4)	0.6	0.9	2.2	1.6
Return on assets(5)	27.8%	27.5%	31.1%	15.7%
Return on equity(6)	186.6%	64.0%	48.9%	29.9%
Interest coverage ratio(7)	47.3	41.3	53.8	37.5
Net debt to equity(8)	net cash	15.2%	12.7%	net cash
Gearing ratio(9)	104.4%	18.5%	16.4%	24.3%

Notes:

(1) *Gross profit margin equals our gross profit divided by turnover for the period.*

(2) *Net profit margin equals our profit for the year/period divided by turnover for the period.*

(3) *Current ratio equals our current assets divided by current liabilities as of the end of the period.*

(4) *Quick ratio equals our current assets less inventories divided by current liabilities as of the end of the period.*

(5) *Return on assets equals profit for the year/period divided by the total assets as of the end of the period. Return on assets for the six months ended June 30, 2013 is calculated on an annualized basis.*

(6) *Return on equity equals profit for the year/period divided by the total equity as of the end of the period. Return on equity for the six months ended June 30, 2013 is calculated on an annualized basis.*

(7) *Interest coverage ratio equals profit before finance costs and income tax divided by finance costs of the same period.*

(8) *Net debt to equity ratio equals net debt divided by total equity as of the end of the period. Net debt includes all bank loans less cash and cash equivalents.*

(9) *Gearing ratio equals total bank loans divided by total equity as of the end of the period.*

Current ratio and quick ratio

Our current ratios were 0.9, 1.4, 2.4 and 1.7 as of December 31, 2010, 2011 and 2012 and June 30, 2013, respectively. Our quick ratios were 0.6, 0.9, 2.2 and 1.6 as of December 31, 2010, 2011 and 2012 and June 30, 2013, respectively. The improvement in both current ratio and quick ratio during the Track Record Period was mainly due to the increase in trade receivables as result of the growth in our overall sales. The decreases in current ratio and quick ratio as of June 30, 2013 are due to increases in bank borrowings and trade and other payables and decreases in trade receivables.

Gearing ratio

Gearing ratios were 104.4%, 18.5%, 16.4% and 24.3% as of December 31, 2010, 2011 and 2012 and June 30, 2013, respectively. Gearing ratio significantly decreased from 104.4% as of December 31, 2010 to 18.5% as of December 31, 2011 primarily due to (i) the decrease in bank loans as a result of repayment of bank loans for the year ended December 31, 2011; and (ii) the increase in total equity as a result of the profit generated from our operations in year 2011. Gearing ratio decreased from 18.5% as of December 31, 2011 to 16.4% as of December 31, 2012 primarily due to the further increase in total equity as a result of profit generated from our operations in year 2012, partially offset by the effect of the increase in bank loans. Gearing ratio further increased to 24.3% as of June 30, 2013 because of our increase in bank loans, which was partially offset by an increase in total equity as a result of profit generated from our operations.

Return on equity

Our return on equity was 186.6%, 64.0%, 48.9% and 29.9% as of December 31, 2010, 2011 and 2012 and June 30, 2013, respectively. Return on equity continued to decrease throughout the Track Record Period, primarily because our total equity increased at a higher rate than the increase in the net profit.

Return on assets

Our return on assets were 27.8%, 27.5%, 31.1% and 15.7% for the three years ended December 31, 2012 and the six months ended June 30, 2013, respectively. Return on assets remained stable in years 2010 and 2011. It increased from 27.5% for the year ended December 31, 2011 to 31.1% for the year ended December 31, 2012, primarily due to the significant increase in profit for the year ended December 31, 2012. Return on assets as of June 30, 2013 decreased because of increase in cash and cash equivalent balance as a result of cash proceeds received from pre-IPO investment by Chance Talent.

RELATED PARTY TRANSACTIONS

Please see Note 26 to the Accountants' Report in Appendix I of this prospectus for details of the Group's material related party transactions during the Track Record Period.

With respect to the related party transactions set out in the Accountants' Report in Appendix I of this prospectus, our Directors confirm that these transactions were conducted on normal commercial terms and/or terms that are no less favorable than terms available from Independent Third Parties which are considered fair and reasonable and in the interest of our Shareholders as a whole.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As of the Latest Practicable Date, we had not entered into any off-balance sheet transactions.

PROFIT FORECAST

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

Forecast consolidated profit of the Company for the year ending December 31, 2013(1)(3)	not less than RMB124.2 million (approximately HK$157.4 million)
Unaudited pro forma forecast earnings per Share for the year ending December 31, 2013(2)(3)	not less than RMB0.16 (approximately HK$0.2)

Notes:

(1) The bases and assumptions on which the above profit forecast has been prepared are summarized in Appendix III to this Prospectus. The Directors have prepared the forecast consolidated profit of the Company for the year ending December 31, 2013 based on the audited consolidated results for the six months ended June 30, 2013, the unaudited management accounts of our Group for the four months ended October 31, 2013 and the forecast consolidated results for the remaining two months ending December 31, 2013.

(2) The calculation of the unaudited pro forma forecast earnings per share is based on the forecast consolidated results for the year ending December 31, 2013 of the Company, assuming that a total of 800,000,000 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, any options granted under the Pre-IPO Share Option Scheme or options that may be granted under the Share Option Scheme.

(3) The forecast consolidated profit of the Company and the unaudited pro forma forecast earnings per share for the year ending December 31, 2013 are converted into Hong Kong Dollars at the exchange rate of RMB0.78923 to HK$1.00, the PBOC rate on December 20, 2013.

DISTRIBUTABLE RESERVES

As of June 30, 2013, we had no distributable reserves available for distribution to our equity holders.

DIVIDEND POLICY

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

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

DISCLOSURE REQUIRED UNDER CHAPTER 13 OF THE LISTING RULES

Our Directors have confirmed that, as of the Latest Practicable Date, there are no circumstances which, had we been required to comply with Rules 13.13 to 13.19 in Chapter 13 of the Listing Rules, would have given rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that, up to the Latest Practicable Date, there has been no material adverse change in our financial or trading position since June 30, 2013 and there is no event since June 30, 2013 which would materially affect the information shown in the Accountants' Report in Appendix I of this prospectus.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following is an illustrative and pro forma statement of our adjusted net tangible assets, which has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Global Offering as if it had taken place on June 30, 2013. This unaudited pro forma statement of 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 our financial position had the Global Offering been completed as of June 30, 2013 or any future dates.

	Consolidated net tangible assets of the Company as at June 30, 2013(1)	Estimated net proceeds from the Global Offering(2)	Unaudited pro forma adjusted consolidated net tangible assets of the Company	Unaudited pro forma adjusted consolidated net tangible assets of the Company per Share(3)	
	RMB'000	RMB'000	RMB'000	RMB	HK$(4)
Based on the Offer Price of HK$1.60 for each Offer Share	282,117	168,484	450,601	0.56	0.71
Based on the Offer Price of HK$2.32 for each Offer Share	282,117	256,669	538,786	0.67	0.85

Notes:

(1) The consolidated net tangible assets of the Company as of June 30, 2013 was calculated based on the consolidated net assets of the Company as of June 30, 2013 of approximately RMB282,164,000 as extracted from the Accountants' Report set out in Appendix I to this Prospectus, with adjustments for the intangible assets of approximately RMB47,000.

(2) The estimated net proceeds from the Global Offering are based on 160,000,000 Shares at the Offer Price of HK$1.60 and of HK$2.32 per Share, after deduction of the underwriting fees and other related expenses payable by the Company. No account has been taken of the Shares which may be allotted and issued upon the exercise of the Over-allotment Option or the options granted under the Pre-IPO Share Option Scheme or any options that may be granted under the Share Option Scheme, or any Shares which may be repurchased by the Company pursuant to the Repurchase Mandate. The estimated net proceeds from the Global Offering are converted from Hong Kong dollars into Renminbi at an exchange rate of RMB0.78923 to HK$1.00, which was the rate prevailing on December 20, 2013 as set by PBOC. No representation is made that Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate or at all.

(3) The unaudited pro forma adjusted consolidated net tangible assets per Share is arrived at after making the adjustments referred to in the preceding paragraph and on the basis that a total of 800,000,000 Shares were in issue assuming that the Global Offering had been completed on June 30, 2013. It does not take into account of any Shares which may be allotted and issued upon the exercise of the Over-allotment Option or the options granted under the Pre-IPO Share Option Scheme or any options that may be granted under the Share Option Scheme, or any Shares which may be repurchased by the Company pursuant to the Repurchase Mandate.

(4) The unaudited pro forma adjusted consolidated net tangible assets of the Company per Share is converted from Renminbi into Hong Kong dollars at the rate of RMB0.78923 to HK$1.00, which was the rate prevailing on December 20, 2013 as set by PBOC. No representation is made that the Renminbi amounts have been, could have been or could be converted to Hong Kong dollars, or vice versa, at that rate or at any other rates or at all.

(5) No adjustment has been made to the consolidated net tangible assets of the Company as at June 30, 2013 to reflect any trading result or other transaction of the Group entered into subsequent to June 30, 2013.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to various types of market risks in the ordinary course of our business, including credit risks, liquidity risks, fluctuations in interest rates and foreign currency risks. We manage our exposure to these and other market risks through regular operating and financial activities.

Credit Risk

Our credit risk is primarily attributable to trade and other receivables and deposits with bank. All of our customers who wish to trade on credit terms are subject to credit evaluation procedures. In addition, receivable balances are monitored on an ongoing basis. For the years ended December 31, 2010, 2011 and 2012, certain amounts of turnover and trade receivables are related to sales to related parties. Our management considers that related parties are under the control of the members of the Controlling Shareholder's family, thus no material credit risk exists on sales to related companies. In respect of sales to third party customers, credit evaluations are performed on customers requiring credit terms. These evaluations focus on the customer's payment history, current payment capabilities and we take into account information specific to the customer as well as to the economic environment.

Our exposure to credit risk is influenced mainly by the individual characteristics of each customer and therefore significant concentrations of credit risk arise when we have significant exposure to individual customers. As of December 31, 2010, 2011 and 2012 and June 30, 2013, 1%, 6%, 21% and 18% of the total trade and bills receivables were due from our largest customer, and 11%, 23%, 52% and 48% of the total trade and bills receivables were due from our five largest customers, respectively.

We mitigate our exposure to credit risk by placing deposits with financial institutions with established credit rating. Given the high credit ratings of the banks, management does not expect any counter party to fail to meet its obligations.

The maximum exposure to credit risk of the Group's financial assets is represented by the carrying amount of each financial asset in the consolidated statements of financial position as set out in the Accountants' Report in Appendix I. Except for the financial guarantees given by us as set forth in "Contingent Liabilities" of this section, we have not provided any other guarantees that would expose us to credit risk.

Liquidity Risk

The board of directors of the Company is responsible for cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands.

Our policy is to regularly monitor liquidity requirements and our compliance with lending covenants, to ensure that we maintain sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet our liquidity requirements in the short and longer terms.

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

Interest Rate Risk

Our interest rate risk arises primarily from bank loans. Borrowings issued at variable rates and at fixed rates expose us to cashflow interest rate risk and fair value interest rate risk, respectively. Our Directors will continue to closely monitor our loan portfolio and compare the loan margin spread under existing agreements against the current borrowing interest rates under different currencies and new offers from banks.

Foreign Currency Risk

Our businesses are principally conducted in RMB and most of our monetary assets and liabilities are denominated in RMB. We receive foreign currency through export business, but the amount is insignificant. Accordingly, the management considers our exposure to currency risk is insignificant.

Treasury policy

We have established a treasury policy that aims to better control our treasury operations and lower our cost of borrowing. Our Directors review and monitor all funds for our operations. We maintain an adequate level of cash and cash equivalents to finance our daily operations. We also ensure the availability of bank facilities to address any short term funding needs. We may enter into futures contracts to hedge our exposure to fluctuations in foreign currency exchange rates and interest rates. We do not enter into any derivative products for speculative purposes.