德勤‧關黃陳方會計師行
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September 12, 2011

The Directors
Hongguo International Holdings Limited
Citigroup Global Markets Asia Limited
DBS Asia Capital Limited

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") regarding Hongguo International Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for each of the three years ended December 31, 2010 and three months ended March 31, 2011 (the "Track Record Period"), for inclusion in the prospectus of the Company dated September 12, 2011 (the "Prospectus") in connection with the initial public offering of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

The Company was incorporated and registered as an exempted company with limited liability in Bermuda under the Companies Act 1981 of Bermuda (as amended) on April 26, 2002 as MF International Holdings Limited. On January 22, 2003, the Company changed its name to Hongguo International Holdings Limited. The Company was listed on the Singapore Exchange Securities Trading Limited ("SGX-ST") in June 2003. On January 18, 2010, Info Giant Investments Limited ("Info Giant"), a company incorporated in the British Virgin Islands ("BVI") and in which certain directors of the Company have beneficial interests, made a voluntary conditional cash offer (the "Privatization Offer") for all the issued ordinary shares in the Company. The Privatization Offer was closed on March 22, 2010, and a majority of the shareholders, representing over 97% of the then issued ordinary shares of the Company, accepted the Privatization Offer. Subsequently, Info Giant exercised its right of compulsory acquisition to acquire all the remaining shares held by shareholders who had not accepted the Privatization Offer (the "Compulsory Acquisition"). The Compulsory Acquisition was completed on May 5, 2010 and the Company was delisted from the SGX-ST (the "Delisting") on May 6, 2010. On March 9, 2011, High Score Holdings Limited ("High Score"), Media Value Holdings Limited ("Media Value") and Sure Manage Investments Limited ("Sure Manage") acquired 217,523,461, 93,422,774 and 85,921,965 of the Company's shares from Info Giant, representing 54.81%, 23.54% and 21.65% of the Company's then issued ordinary shares respectively. High Score, Media Value and Sure Manage are incorporated in the BVI and in which certain directors of the Company have beneficial interests. The Company is an investment holding company and the Group is principally engaged in the manufacture and sale of branded fashion footwear.

All companies now comprising the Group have adopted December 31 as their financial year end date.

The Company has direct and indirect interests in the following subsidiaries during the Track Record Period and at the date of this report:

| Name of company | Place and date of incorporation/ establishment | Issued and fully paid share capital/ registered capital at the date of this report | Attributable equity interest of the Group | | | | | Principal activities |
|---|---|---|---|---|---|---|---|---|
| | | | As at December 31, | | | At March 31, | At the date of this report | |
| | | | 2008 | 2009 | 2010 | 2011 | | |
| **Held by the Company** | | | | | | | | |
| Best Invent Holdings Limited ("Best Invent") | BVI May 3, 2002 | United States Dollar ("USD") 2 | 100% | 100% | 100% | 100% | 100% | Investment holding |
| Best Value Profits Limited ("Best Value") | BVI September 26, 2001 | USD 2 | 100% | 100% | 100% | 100% | 100% | Investment holding and marketing and sales agent |
| Allied Great International Holdings Limited 匯英國際集團有限公司 ("Allied Great") | Hong Kong November 21, 2007 | Hong Kong Dollar ("HKD") 1 | 100% | 100% | 100% | 100% | 100% | Investment holding |
| China Ease Enterprise Limited 華誼企業有限公司 ("China Ease") | Hong Kong October 31, 2007 | HKD 1 | 100% | 100% | 100% | 100% | 100% | Investment holding |
| **Held by subsidiaries of the Company** | | | | | | | | |
| Mayflower (Nanjing) Enterprise Company Limited 美麗華企業(南京)有限公司 ("Nanjing Mayflower") | The People's Republic of China (the "PRC") March 3, 2004 | USD 18,000,000 | 100% | 100% | 100% | 100% | 100% | Retail sale of branded fashion footwear |
| Dongguan Mayflower Footwear Corporation Limited 東莞美麗華鞋業有限公司 ("Dongguan Mayflower") | PRC July 30, 2002 | USD 1,000,000 | 100% | 100% | 100% | 100% | 100% | Contract manufacture and sale of branded fashion footwear |
| Nanjing Soft Garment & Footwear Co., Ltd. 南京舒服特服飾鞋業有限公司 ("Nanjing Soft") | PRC December 15, 2005 | USD 10,000,000 | 100% | 100% | 100% | 100% | 100% | Manufacture and sale of branded fashion footwear and related materials |
| Suining Shufute Shoes Co., Ltd. 睢寧舒服特鞋業有限公司 ("Suining Shufute") | PRC January 28, 2010 | USD 5,000,000 | — | — | 100% | 100% | 100% | Manufacture and sale of branded fashion footwear and related materials |
| Nanjing Ruihe Trade Co., Ltd. 南京瑞和商貿有限公司 ("Nanjing Ruihe") (note (1)) | PRC June 18, 2009 | Renminbi ("RMB") 20,000,000 | — | 100% | 100% | 100% | 100% | Property investment |
| Jiangsu Unity Corporation Co., Limited 江蘇團結企業有限公司 ("Jiangsu Unity") (note (2)) | PRC May 11, 2004 | RMB 26,000,000 | 100% | 100% | — | — | — | Retail and wholesale of international and domestic branded apparel |
| Dongguan Mayflower Industries Limited 東莞美麗華實業有限公司 ("Dongguan Industries") (note (3)) | PRC October 8, 2005 | USD 1,000,000 | — | — | — | — | — | Contract manufacture and sale of branded fashion footwear |

Notes:

(1) Nanjing Ruihe was acquired on October 26, 2009. Detail of the acquisition is set out in Note 34.

(2) Jiangsu Unity was disposed of on December 8, 2010. Detail of the disposal is set out in Note 35.

(3) Dongguan Industries was liquidated on August 1, 2008.

The statutory financial statements of the Company for the two years ended December 31, 2009 were prepared in accordance with the Singapore Financial Reporting Standards. No audited financial statements have been prepared for the Company for the year ended December 31, 2010, as there are no statutory requirements in the respective jurisdiction to do so subsequent to the Delisting. The statutory financial statements of Allied Great and China Ease were prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The statutory financial statements of Nanjing Mayflower, Dongguan Mayflower, Nanjing Soft and Suining Shufute were prepared in accordance with relevant accounting principles and financial regulations applicable to enterprises established in the PRC. They were audited by the following certified public accountants registered in their respective jurisdictions, as appropriate:

| Name of Group entity | Financial year | Name of statutory auditor |
|---|---|---|
| The Company | For the two years ended December 31, 2009 | Deloitte & Touche LLP, Singapore |
| Allied Great | For the three years ended December 31, 2010 | PROCON CPA Limited, Certified Public Accountants |
| China Ease | For the three years ended December 31, 2010 | PROCON CPA Limited, Certified Public Accountants |
| Nanjing Mayflower | For the year ended December 31, 2008 | 江蘇達鼎會計師事務所有限公司 Jiangsu Dading Certified Public Accountants Co., Ltd. |
| | For the two years ended December 31, 2010 | 江蘇利安達興業會計師事務所 有限公司 Jiangsu Reanda XingYe Certified Public Accountants Co., Ltd. |
| Dongguan Mayflower | For the year ended December 31, 2008 | 東莞市東誠會計師事務所有限公司 Dongguan Dongcheng CPA Co., Ltd. |
| | For the two years ended December 31, 2010 | 廣東中誠安泰會計師事務所 有限公司 Guangdong CCAT Certified Public Accountants Co., Ltd. |
| Nanjing Soft | For the year ended December 31, 2008 | 江蘇達鼎會計師事務所有限公司 Jiangsu Dading Certified Public Accountants Co., Ltd. |
| | For the two years ended December 31, 2010 | 江蘇利安達興業會計師事務所 有限公司 Jiangsu Reanda XingYe Certified Public Accountants Co., Ltd. |
| Suining Shufute | For the period from January 28, 2010 (date of establishment) to December 31, 2010 | 睢寧縣正興聯合會計師事務所 Suining Zhengxing CPA Co., Ltd. |

Best Invent and Best Value incorporated in the BVI do not prepare any audited financial statements, as there are no statutory requirements in the respective jurisdiction to do so.

There is no requirement for Nanjing Ruihe and Jiangsu Unity to prepare the statutory financial statements since their respective dates of establishment.

No audited financial statements have been prepared for Dongguan Industries, as it was liquidated on August 1, 2008.

The directors of the Company have prepared the consolidated financial statements of the Group for each of the two years ended December 31, 2009 in accordance with Singapore Financial Reporting Standards and the consolidated financial statements of the Group for the year ended December 31, 2010 and for the three months ended March 31, 2011 in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standard Board (the "IASB") (the "Underlying Financial Statements"). The Underlying Financial Statements of the Group for each of the two years ended December 31, 2009 were audited by Deloitte & Touche LLP, Singapore, in accordance with Singapore Standards on Auditing. We have conducted audit procedures on the consolidated financial statements of the Group for each of the two years ended December 31, 2009 in accordance with International Standards on Auditing. For the purpose of this report, we have undertaken independent audit of the consolidated financial statements of the Group for the year ended December 31, 2010 and for the three months ended March 31, 2011 in accordance with International Standards on Auditing.

We have examined the Underlying Financial Statements in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the HKICPA.

The Financial Information of the Group for the Track Record Period as set out in this report has been prepared in accordance with the accounting policies set out in Note 3 which are in conformity with IFRSs, and from the Underlying Financial Statements, after making necessary adjustments as we considered appropriate for the purpose of preparing our report for inclusion in the Prospectus.

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

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of the Company and of the Group as at December 31, 2008, December 31, 2009, December 31, 2010 and March 31, 2011, and of the consolidated results and consolidated cash flows of the Group for each of the three years ended December 31, 2010 and for the three months ended March 31, 2011.

The comparative consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the three months ended March 31, 2010 together with the notes thereon (the "March 2010 Financial Information") have been extracted from the Group's unaudited consolidated financial information for the same period, which was prepared by the directors of the Company solely for the purpose of this report. We have reviewed the March 2010 Financial Information in accordance with the Hong Kong Standard on Review Engagement 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. Our review of the March 2010 Financial Information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the March 2010 Financial Information. Based on our review, nothing has come to our attention that causes us to believe that the March 2010 Financial Information is not prepared, in all material respects, in accordance with the accounting policies consistent with those used in the preparation of the Financial Information which conform with IFRSs.

## A. FINANCIAL INFORMATION

### Consolidated Statements of Comprehensive Income

| | NOTES | Year ended December 31, 2008 | Year ended December 31, 2009 | Year ended December 31, 2010 | Three months ended March 31, 2010 | Three months ended March 31, 2011 |
|---|---|---|---|---|---|---|
| | | RMB'000 | RMB'000 | RMB'000 | RMB'000 (unaudited) | RMB'000 |
| **Continuing operations** | | | | | | |
| Revenue | 6 | 1,043,959 | 1,284,924 | 1,574,963 | 373,545 | 465,096 |
| Cost of sales | | (479,357) | (633,733) | (602,671) | (164,040) | (176,103) |
| Gross profit | | 564,602 | 651,191 | 972,292 | 209,505 | 288,993 |
| Other income and other gains and losses | 7 | 7,811 | 10,787 | 9,076 | 2,798 | 4,174 |
| Distribution and selling expenses | | (378,787) | (468,034) | (652,993) | (143,314) | (178,695) |
| Administrative and general expenses | | (55,605) | (64,883) | (84,771) | (25,527) | (20,837) |
| Finance costs | 8 | (613) | (1,015) | (903) | (780) | (185) |
| Share of losses of joint ventures | 20 | (10,560) | (4,410) | (2,996) | (1,402) | (436) |
| Profit before tax | 9 | 126,848 | 123,636 | 239,705 | 41,280 | 93,014 |
| Income tax expense | 10 | (20,004) | (32,603) | (67,643) | (10,756) | (24,660) |
| Net profit for the year/period from continuing operations | | 106,844 | 91,033 | 172,062 | 30,524 | 68,354 |
| **Discontinued operations** | | | | | | |
| Loss for the year/period from discontinued operations | 11 | (419) | (11,402) | (2,207) | (471) | — |
| **Net profit and total comprehensive income for the year/period attributable to owners of the Company** | | 106,425 | 79,631 | 169,855 | 30,053 | 68,354 |
| | | RMB cents | RMB cents | RMB cents | RMB cents | RMB cents |
| **Earnings per share** | | | | | | |
| From continuing and discontinued operations | | | | | | |
| Basic | 14 | 6.26 | 4.68 | 9.99 | 1.77 | 4.02 |
| From continuing operations | | | | | | |
| Basic | 14 | 6.28 | 5.35 | 10.12 | 1.80 | 4.02 |

## A. FINANCIAL INFORMATION—(continued)

### Consolidated Statements of Financial Position

| | NOTES | As at December 31, 2008 | As at December 31, 2009 | As at December 31, 2010 | As at March 31, 2011 |
|---|---|---|---|---|---|
| | | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **Non-current assets** | | | | | |
| Property, plant and equipment | 15 | 89,000 | 78,777 | 86,277 | 93,315 |
| Prepaid lease payments | 16 | 16,454 | 16,070 | 15,686 | 15,590 |
| Investment properties | 17 | — | 44,640 | 46,069 | 46,069 |
| Goodwill | 18 | 2,000 | — | — | — |
| Intangible assets | 19 | 1,373 | 1,870 | 1,814 | 1,782 |
| Interest in joint ventures | 20 | 12,771 | 5,720 | 5,804 | 5,489 |
| Deferred tax assets | 21 | 5,494 | 6,758 | 10,200 | 11,964 |
| Long-term deposit | | 8,999 | 6,731 | 7,197 | 7,316 |
| | | 136,091 | 160,566 | 173,047 | 181,525 |
| **Current assets** | | | | | |
| Inventories | 22 | 343,805 | 270,290 | 410,263 | 360,386 |
| Trade receivables | 23 | 132,925 | 175,136 | 179,930 | 158,473 |
| Other receivables and prepayments | 24 | 27,062 | 29,679 | 38,360 | 41,537 |
| Pledged bank deposits | 25 | 24,793 | 29,728 | 33,784 | 31,783 |
| Bank balances and cash | 26 | 115,376 | 278,379 | 161,409 | 192,231 |
| | | 643,961 | 783,212 | 823,746 | 784,410 |
| **Current liabilities** | | | | | |
| Trade payables | 27 | 87,955 | 132,095 | 197,161 | 119,185 |
| Other payables | 28 | 66,505 | 93,426 | 95,471 | 82,653 |
| Income tax liabilities | | 8,357 | 15,337 | 46,435 | 35,368 |
| Deferred revenue | 29 | — | — | 8,581 | 10,741 |
| Short-term bank loans | 30 | 41,008 | 40,893 | — | 64,260 |
| | | 203,825 | 281,751 | 347,648 | 312,207 |
| **Net current assets** | | 440,136 | 501,461 | 476,098 | 472,203 |
| **Total assets less current liabilities** | | 576,227 | 662,027 | 649,145 | 653,728 |
| **Non-current liability** | | | | | |
| Deferred tax liabilities | 21 | 1,652 | 5,723 | 7,059 | 7,729 |
| | | 574,575 | 656,304 | 642,086 | 645,999 |
| **Capital and reserves** | | | | | |
| Share capital | 31 | 49,271 | 49,271 | 49,271 | 49,271 |
| Reserves | | 525,304 | 607,033 | 592,815 | 596,728 |
| **Total equity attributable to owners of the Company** | | 574,575 | 656,304 | 642,086 | 645,999 |

## A. FINANCIAL INFORMATION—(continued)

### Statements of Financial Position of the Company

| | NOTES | As at December 31, 2008 | As at December 31, 2009 | As at December 31, 2010 | As at March 31, 2011 |
|---|---|---|---|---|---|
| | | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **Non-current assets** | | | | | |
| Other receivables and prepayments | 24 | 75,419 | 46,624 | 149,615 | 149,615 |
| Investments in subsidiaries | 41 | 2,372 | 4,112 | 10,038 | 10,038 |
| | | 77,791 | 50,736 | 159,653 | 159,653 |
| **Current assets** | | | | | |
| Other receivables and prepayments | 24 | 148,803 | 214,096 | 132,941 | 68,234 |
| Bank balances and cash | | 42,282 | 753 | 13,057 | 8,347 |
| | | 191,085 | 214,849 | 145,998 | 76,581 |
| **Current liabilities** | | | | | |
| Other payables | 28 | 29,188 | 39,584 | 79,402 | 5,803 |
| Short-term bank loans | 30 | 41,008 | 40,893 | — | 64,260 |
| | | 70,196 | 80,477 | 79,402 | 70,063 |
| **Net current assets** | | 120,889 | 134,372 | 66,596 | 6,518 |
| **Total assets less current liabilities** | | 198,680 | 185,108 | 226,249 | 166,171 |
| **Capital and reserves** | | | | | |
| Share capital | 31 | 49,271 | 49,271 | 49,271 | 49,271 |
| Reserves | 42 | 149,409 | 135,837 | 176,978 | 116,900 |
| **Total equity attributable to owners of the Company** | | 198,680 | 185,108 | 226,249 | 166,171 |

## A. FINANCIAL INFORMATION—(continued)

### Consolidated Statements of Changes in Equity

| | Equity attributable to owners of the Company | | | | | |
|---|---|---|---|---|---|---|
| | Share capital | Share premium | PRC Statutory reserve | Share option reserve | Accumulated profits | Total |
| | RMB'000 | RMB'000 | RMB'000 (Note 32) | RMB'000 | RMB'000 | RMB'000 |
| At January 1, 2008 | 49,271 | 98,093 | 43,796 | — | 302,850 | 494,010 |
| Net profit and total comprehensive income for the year | — | — | — | — | 106,425 | 106,425 |
| Recognition of equity-settled share based payments (Note 33) | — | — | — | 976 | — | 976 |
| Transfer | — | — | 12,947 | — | (12,947) | — |
| Dividend paid (Note 13) | — | — | — | — | (26,836) | (26,836) |
| At December 31, 2008 | 49,271 | 98,093 | 56,743 | 976 | 369,492 | 574,575 |
| Net profit and total comprehensive income for the year | — | — | — | — | 79,631 | 79,631 |
| Recognition of equity-settled share based payments (Note 33) | — | — | — | 2,098 | — | 2,098 |
| Transfer | — | — | 11,947 | — | (11,947) | — |
| At December 31, 2009 | 49,271 | 98,093 | 68,690 | 3,074 | 437,176 | 656,304 |
| Net profit and total comprehensive income for the year | — | — | — | — | 169,855 | 169,855 |
| Recognition of equity-settled share based payments (Note 33) | — | — | — | 7,502 | — | 7,502 |
| Transfer on cancellation of equity-settled share based payments (Note 33) | — | — | — | (10,576) | 10,576 | — |
| Transfer on disposal of a subsidiary | — | — | (2,423) | — | 2,423 | — |
| Transfer | — | — | 17,372 | — | (17,372) | — |
| Dividend paid (Note 13) | — | — | — | — | (191,575) | (191,575) |
| At December 31, 2010 | 49,271 | 98,093 | 83,639 | — | 411,083 | 642,086 |
| Net profit and total comprehensive income for the period | — | — | — | — | 68,354 | 68,354 |
| Dividend paid (Note 13) | — | — | — | — | (64,441) | (64,441) |
| At March 31, 2011 | 49,271 | 98,093 | 83,639 | — | 414,996 | 645,999 |
| **For the three months ended March 31, 2010 (unaudited)** | | | | | | |
| At January 1, 2010 | 49,271 | 98,093 | 68,690 | 3,074 | 437,176 | 656,304 |
| Net profit and total comprehensive income for the period | — | — | — | — | 30,053 | 30,053 |
| Recognition of equity-settled share based payments (Note 33) | — | — | — | 7,502 | — | 7,502 |
| At March 31, 2010 | 49,271 | 98,093 | 68,690 | 10,576 | 467,229 | 693,859 |

## A. FINANCIAL INFORMATION—(continued)

### Consolidated Statements of Cash Flows

| | NOTES | Year ended December 31, 2008 | 2009 | 2010 | Three months ended March 31, 2010 | 2011 |
|---|---|---|---|---|---|---|
| | | RMB'000 | RMB'000 | RMB'000 | RMB'000 (unaudited) | RMB'000 |
| **Operating activities** | | | | | | |
| Profit before tax | | 126,099 | 112,809 | 237,498 | 40,809 | 93,014 |
| Adjustments for: | | | | | | |
| Share of losses of joint ventures | | 10,560 | 4,410 | 2,996 | 1,402 | 436 |
| Finance costs recognized in profit or loss | | 613 | 1,015 | 903 | 780 | 185 |
| Net loss on disposal of property, plant and equipment | | 127 | 490 | — | — | — |
| Depreciation of property, plant and equipment | | 13,324 | 17,603 | 14,873 | 3,299 | 3,442 |
| Amortization of intangible assets | | 423 | 390 | 355 | 87 | 91 |
| Amortization of prepaid lease payments | | 549 | 384 | 384 | 96 | 96 |
| Impairment of goodwill | | 2,500 | 2,000 | — | — | — |
| Allowance for inventory obsolescence | | 7,913 | 9,585 | 3,030 | 2,417 | 2,282 |
| Expense recognized in respect of equity-settled share-based payments | | 976 | 2,098 | 7,502 | 7,502 | — |
| Interest income | | (2,193) | (3,109) | (2,682) | (1,686) | (329) |
| Exchange adjustment for bank borrowings | | — | (115) | — | — | (181) |
| Loss on disposal of a subsidiary | | — | — | 6 | — | — |
| Gain on fair value changes of investment properties | | — | (1,455) | (1,429) | — | — |
| **Operating cash flows before movements in working capital** | | 160,891 | 146,105 | 263,436 | 54,706 | 99,036 |
| (Increase) decrease in inventories | | (114,974) | 66,571 | (156,022) | 46,419 | 47,474 |
| Decrease (increase) in trade receivables | | 6,178 | (42,211) | (7,266) | 24,196 | 21,457 |
| Decrease (increase) in other receivables | | 24,346 | (2,617) | (28,144) | (4,256) | (3,177) |
| (Decrease) increase in trade payables | | (14,049) | 30,197 | 65,334 | (54,600) | (77,976) |
| (Decrease) increase in other payables | | (5,095) | 26,921 | 3,442 | (4,089) | (16,839) |
| (Increase) decrease in long-term deposit | | (1,771) | 2,268 | (466) | 632 | (119) |
| Increase in deferred revenue | | — | — | 8,581 | — | 2,160 |
| **Cash generated from operations** | | 55,526 | 227,234 | 148,895 | 63,008 | 72,016 |
| Interest paid | | (613) | (1,015) | (903) | (780) | — |
| Income taxes paid | | (21,321) | (25,729) | (38,651) | (7,555) | (36,821) |
| **Net cash from operating activities** | | 33,592 | 200,490 | 109,341 | 54,673 | 35,195 |
| **Investing activities** | | | | | | |
| Payments for acquisition of property, plant and equipment | | (12,548) | (8,801) | (23,207) | (4,010) | (6,948) |
| Payments for acquisition of intangible assets | | (1,061) | (887) | (407) | — | (59) |
| Acquisition of a subsidiary, net of cash acquired | 34 | — | (26,904) | — | — | — |
| Investment in joint venture | | (3,351) | — | (3,584) | — | — |
| Proceeds from disposal of property, plant and equipment | | — | 931 | 310 | — | 304 |
| Disposal of a subsidiary | 35 | — | — | 34,419 | — | — |
| Interest received | | 2,193 | 3,109 | 2,682 | 1,686 | 329 |
| Decrease (increase) in pledged bank deposits | | 12,777 | (4,935) | (4,056) | 10,267 | 2,001 |
| **Net cash (used in) from investing activities** | | (1,990) | (37,487) | 6,157 | 7,943 | (4,373) |
| **Financing activities** | | | | | | |
| Short-term bank loans raised | | 41,008 | — | — | — | 64,441 |
| Repayment of short-term bank loans | | — | — | (40,893) | — | — |
| Dividends paid | | (26,836) | — | (191,575) | — | (64,441) |
| **Net cash from (used in) financing activities** | | 14,172 | — | (232,468) | — | — |
| **Net increase (decrease) in cash and cash equivalents** | | 45,774 | 163,003 | (116,970) | 62,616 | 30,822 |
| **Cash and cash equivalents at beginning of year/period** | | 69,602 | 115,376 | 278,379 | 278,379 | 161,409 |
| **Cash and cash equivalents at end of year/period, represented by** | | | | | | |
| Bank balances and cash | | 115,376 | 278,379 | 161,409 | 340,995 | 192,231 |

## A. FINANCIAL INFORMATION—(continued)

**Notes to the Financial Information**

### 1. CORPORATION INFORMATION AND BASIS OF PRESENTATION OF FINANCIAL INFORMATION

The Company was incorporated in Bermuda with its registered office at Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda. The Company is an investment holding company. The principal activities of the Group are manufacture and sale of branded fashion footwear. The parent and ultimate parent of the Company is High Score.

The Financial Information is presented in RMB, the functional currency of the Company and its subsidiaries.

### 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

For the purpose of preparing and presenting the Financial Information for the Track Record Period, the Group has applied a number of new and revised International Accounting Standards ("IASs"), IFRSs, amendments and related Interpretations (hereafter referred to as "new IFRSs") which are effective on January 1, 2011 issued by the IASB and the IFRS Interpretations Committee (formerly known as International Financial Reporting Interpretations Committee) of the IASB.

IFRS 3 (2008) *Business Combinations* has been applied prospectively to business combinations for which the acquisition date is on or after January 1, 2010. IFRS 3 (2004) *Business Combinations* has been applied to business combinations for which the acquisition date is before January 1, 2010.

Other new IFRSs have been applied consistently throughout the Track Record Period.

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

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| IFRS 1 (Amendment) . . . . . . . . . | Severe Hyperinflation and Removal of Fixed Dates for First Time Adopters[1] |
| IFRS 7 (Amendment) . . . . . . . . . | Disclosure—Transfers of Financial Assets[1] |
| IFRS 9 . . . . . . . . . . . . . . . . . . . . . | Financial Instruments[2] |
| IFRS 10 . . . . . . . . . . . . . . . . . . . . | Consolidated Financial Statements[2] |
| IFRS 11 . . . . . . . . . . . . . . . . . . . . | Joint Arrangements[2] |
| IFRS 12 . . . . . . . . . . . . . . . . . . . . | Disclosure of Interest in Other Entities[2] |
| IFRS 13 . . . . . . . . . . . . . . . . . . . . | Fair Value Measurement[2] |
| IAS 1 (Amendments) . . . . . . . . . | Presentation of Items of Other Comprehensive Income[3] |
| IAS 12 (Amendment) . . . . . . . . . | Deferred Tax: Recovery of Underlying Assets[4] |
| IAS 19 (Revised 2011) . . . . . . . . | Employee Benefits[2] |
| IAS 27 (Revised 2011) . . . . . . . . | Separate Financial Statements[2] |
| IAS 28 (Revised 2011) . . . . . . . . | Investment in Associates and Joint Ventures[2] |

1 Effective for annual periods beginning on or after July 1, 2011
2 Effective for annual periods beginning on or after January 1, 2013
3 Effective for annual periods beginning on or after July 1, 2012
4 Effective for annual periods beginning on or after January 1, 2012

**A. FINANCIAL INFORMATION—(continued)**

**Notes to the Financial Information—(continued)**

**2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS—(continued)**

IFRS 9 Financial Instruments (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. IFRS 9 Financial Instruments (as revised in October 2010) adds requirements for financial liabilities and for derecognition.

- Under IFRS 9, all recognized financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are subsequently measured at either amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

- In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Currently, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss is presented in profit or loss.

IFRS 9 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.

The directors of the Company anticipate that IFRS 9 that will be adopted in the Group's consolidated financial statements for financial year ending December 31, 2013 and that the application of the new standard will not affect the classification and measurement of the Group's assets based on an analysis of the Group's financial assets as at March 31, 2011.

IFRS 10, IFRS 11, IFRS 12, IAS 27 and IAS 28 are new or revised standards on consolidation, joint arrangements and disclosures which were issued by the IASB in May 2011 and are effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted provided that all of these five new or revised standards are applied early at the same time. The directors of the Company anticipate that these new or revised standards will be applied in the Group's consolidated financial statements for financial year ending December 31, 2013.

IFRS 10 replaces the parts of IAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements. IFRS 10 includes a new definition of control that contains three

## A. FINANCIAL INFORMATION—(continued)

**Notes to the Financial Information—(continued)**

### 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS—(continued)

elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in IFRS 10 to deal with complex scenarios. Overall, the application of IFRS 10 requires extensive use of judgment.

IFRS 11 replaces IAS 31 Interests in Joint Ventures. IFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. Under IFRS 11, there are two types of joint arrangements: joint ventures and joint operations. The classification in IFRS 11 is based on parties' rights and obligations under the arrangements. In contrast, under IAS 31, there are three different types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations.

In addition, joint ventures under IFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under IAS 31 can be accounted for using the equity method of accounting or proportionate accounting.

The directors of the Company anticipate that the application of other new or revised IFRSs will have no material impact on the consolidated financial statements of the Group.

### 3. PRINCIPAL ACCOUNTING POLICIES

**Basis of accounting**

The Financial Information has been prepared on the historical cost basis except for certain properties that are measured at fair value, as explained below, and in accordance with the accounting policies set out below which are in conformity with IFRSs. Historical cost is generally based on the fair value of the consideration given in exchange for assets. These policies have been consistently applied throughout the Track Record Period.

In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The principle accounting policies are set out below:

**Basis of consolidation**

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

The results of subsidiaries acquired or disposed of during the year/period are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

**A. FINANCIAL INFORMATION—(continued)**

**Notes to the Financial Information—(continued)**

**3. PRINCIPAL ACCOUNTING POLICIES—(continued)**

**Basis of consolidation—(continued)**

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

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

**Business combinations**

*Business combinations that took place on or after January 1, 2010*

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognized in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value at the acquisition date.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

*Business combinations that took place prior to January 1, 2010*

Acquisition of businesses was accounted for using the purchase method. The cost of the acquisition was measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that met the relevant conditions for recognition were generally recognized at their fair value at the acquisition date.

Goodwill arising on acquisition was recognized as an asset and initially measured at cost, being the excess of the cost of the acquisition over the Group's interest in the recognized amounts of the identifiable assets, liabilities and contingent liabilities recognized. If, after assessment, the Group's interest in the recognized amounts of the acquiree's identifiable assets, liabilities and contingent liabilities exceeded the cost of the acquisition, the excess was recognized immediately in profit or loss.

Contingent consideration was recognized, if and only if, the contingent consideration was probable and could be measured reliably. Subsequent adjustments to contingent consideration were recognized against the cost of the acquisition.

A. FINANCIAL INFORMATION—(continued)

**Notes to the Financial Information—(continued)**

**3. PRINCIPAL ACCOUNTING POLICIES—(continued)**

**Goodwill**

Goodwill arising on an acquisition of a business is carried at cost less any accumulated impairment losses, if any, and is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit, and then to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in profit or loss. An impairment loss recognized for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

**Interests in joint ventures**

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control (i.e. when the strategic financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control).

Joint venture arrangements that involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities.

The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in jointly controlled entities are initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the jointly controlled entities. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity), the Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of a jointly controlled entity recognized at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment.

**A. FINANCIAL INFORMATION—(continued)**

**Notes to the Financial Information—(continued)**

**3. PRINCIPAL ACCOUNTING POLICIES—(continued)**

**Interests in joint ventures—(continued)**

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

The requirements of IAS 39 are applied to determine whether it is necessary to recognize any impairment loss with respect to the Group's investment in a jointly controlled entity. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

From January 1, 2010 onwards, upon disposal of a jointly controlled entity that results in the Group losing joint control over that jointly controlled entity, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with IAS 39. The difference between the previous carrying amount of the jointly controlled entity attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the jointly controlled entity. In addition, the Group accounts for all amounts previously recognized in other comprehensive income in relation to that jointly controlled entity on the same basis as would be required if that jointly controlled entity had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognized in other comprehensive income by that jointly controlled entity would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses joint control over that jointly controlled entity.

When a group entity transacts with its jointly controlled entity, profits and losses resulting from the transactions with the jointly controlled entity are recognized in the Group' consolidated financial statements only to the extent of interests in the jointly controlled entity that are not related to the Group.

**Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable and is reduced for estimated customer returns, rebates, discounts, sales related taxes and other similar allowances.

*Sale of goods*

Revenue from sale of goods in the normal course of business is recognized when goods are delivered and legal title is passed.

Sales of goods that result in award credits for customers under the Group's customer loyalty program are accounted for as multiple element revenue transactions and the fair value of the

**A. FINANCIAL INFORMATION—(continued)**

**Notes to the Financial Information—(continued)**

**3. PRINCIPAL ACCOUNTING POLICIES—(continued)**

**Revenue recognition—(continued)**

*Sale of goods—(continued)*

consideration received or receivable is allocated between the goods sold and the award credits that are earned by the customers. The consideration allocated to the award credits is measured by reference to their fair value—the amount for which the award credits could be sold separately. Such consideration is not recognized as revenue at the time of the initial sale transaction—but is deferred and recognized as revenue when the award credits are redeemed and the Group's obligations have been fulfilled. Under the Group's customer loyalty program, customers are entitled to redeem their award credits into cash equivalents upon the fulfillment of certain criteria as set out in the terms and conditions of the Group's customer loyalty program.

*Interest income*

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

The Group's accounting policy for recognition of revenue from operating leases is described in the accounting policy below.

**Leasing**

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

*The Group as lessor*

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct cost incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

*The Group as lessee*

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating lease, such incentives are recognized as a liability. The aggregate benefit of incentive is recognized as a reduction of rental expense over a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

**A. FINANCIAL INFORMATION—(continued)**

**Notes to the Financial Information—(continued)**

**3. PRINCIPAL ACCOUNTING POLICIES—(continued)**

**Leasing—(continued)**

*Leasehold land for own use*

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statements of financial position and is amortized over the lease term on a straight-line basis. Prepaid lease payments which are to be amortized in the next twelve months or less are classified as current assets.

**Foreign currencies**

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognized in profit or loss in the period in which they arise.

**Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

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

**Government grants**

Government grants are not recognized until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

**A. FINANCIAL INFORMATION—(continued)**

**Notes to the Financial Information—(continued)**

**3. PRINCIPAL ACCOUNTING POLICIES—(continued)**

**Government grants —(continued)**

Government grants are recognized in profit or loss on a systematic basis over the periods in which the Group recognizes as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognized as deferred revenue in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognized in profit or loss in the period in which they become receivable.

**Retirement benefit costs**

Payments to state-managed retirement benefit schemes are recognized as an expense when employees have rendered service entitling them to the contributions.

**Share-based payment arrangements**

*Share options granted by the Company to employees of the Group in an equity-settled share-based payment arrangement*

For grants of share options that are conditional upon satisfying specified vesting conditions, the fair value of services received is determined by reference to the fair value of share options granted at the grant date and is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share options reserve.

When share options are exercised, the amount previously recognized in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognized in share options reserve will be transferred to accumulated profits.

**Taxation**

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

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

## A. FINANCIAL INFORMATION—(continued)

**Notes to the Financial Information—(continued)**

## 3. PRINCIPAL ACCOUNTING POLICIES—(continued)

**Taxation—(continued)**

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

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

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

**Property, plant and equipment**

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes (other than properties under construction as described below), are stated in the consolidated statement of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognized impairment loss. Costs include professional fees and, for qualifying

**A. FINANCIAL INFORMATION—(continued)**

**Notes to the Financial Information—(continued)**

**3. PRINCIPAL ACCOUNTING POLICIES—(continued)**

**Property, plant and equipment —(continued)**

assets, borrowing costs capitalized in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognized so as to write off the cost of assets (other than properties under construction) less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

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

**Investment properties**

Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. Gains and losses arising from changes in the fair value of investment property are included in profit or loss in the period in which they arise.

An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized.

**Intangible assets**

*Intangible assets acquired separately*

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

*Derecognition of intangible assets*

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss when the asset is derecognized.

**A. FINANCIAL INFORMATION—(continued)**

**Notes to the Financial Information—(continued)**

**3. PRINCIPAL ACCOUNTING POLICIES—(continued)**

**Impairment of tangible and intangible assets other than goodwill**

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

**Inventories**

Inventories are stated at the lower of cost and net realizable value. Cost is calculated using the weighted average method.

**Financial instruments**

Financial assets and financial liabilities are recognized when a group entity becomes a party to the contractual provisions of the instrument.

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

**A. FINANCIAL INFORMATION—(continued)**

**Notes to the Financial Information—(continued)**

**3. PRINCIPAL ACCOUNTING POLICIES—(continued)**

**Financial instruments—(continued)**

*Financial assets*

The Group's financial assets are classified into loans and receivables. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

**Effective interest method**

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

Income is recognized on an effective interest basis for debt instruments.

**Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and other receivables, long-term deposit, pledged bank deposits and bank balances and cash) are measured at amortized cost using the effective interest method, less any impairment.

Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

**Impairment of financial assets**

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

Objective evidence of impairment could include:

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

For certain categories of financial asset, such as trade and other receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past

**A. FINANCIAL INFORMATION—(continued)**

**Notes to the Financial Information—(continued)**

**3. PRINCIPAL ACCOUNTING POLICIES—(continued)**

**Financial instruments—(continued)**

**Impairment of financial assets—(continued)**

experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

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

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

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

*Financial liabilities and equity instruments*

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

**Equity instruments**

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

**Financial liabilities**

Financial liabilities (including trade and other payables and short-term bank loans) are subsequently measured at amortized cost using the effective interest method.

**Effective interest method**

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees paid or received that form an

**A. FINANCIAL INFORMATION—(continued)**

**Notes to the Financial Information—(continued)**

**3. PRINCIPAL ACCOUNTING POLICIES—(continued)**

**Financial instruments—(continued)**

**Effective interest method—(continued)**

integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognized on an effective interest basis.

*Derecognition*

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

**4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

In the application of the Group's accounting policies, which are described in Note 3, the directors of the Company are required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

*Key sources of estimation uncertainty*

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

*Impairment of trade receivables*

Trade receivables are carried at amortized cost using the effective interest method, less any identified impairment losses. Appropriate allowances for estimated irrecoverable amounts are recognized in profit or loss when there is objective evidence that the asset is impaired.

**A. FINANCIAL INFORMATION—(continued)**

**Notes to the Financial Information—(continued)**

**4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY—(continued)**

*Impairment of trade receivables—(continued)*

In making the judgment, management considered the procedures that have been in place to monitor this risk as a significant proportion of the Group's working capital is devoted to trade receivables. In determining whether allowance for bad and doubtful debts is required, the Group takes into consideration the aging status and the likelihood of collection. Specific allowance is only made for trade receivables that are unlikely to be collected. In this regard, the management is satisfied that adequate allowance for doubtful debts has been made in the Financial Information in light of the historical records of the Group. As at December 31, 2008, 2009, 2010 and March 31, 2011, the carrying amount of trade receivables was RMB132,925,000, RMB175,136,000, RMB179,930,000 and RMB158,473,000 respectively.

*Impairment for inventories*

Inventories are valued at the lower of cost and net realizable value. Also, the Group regularly inspects and reviews its inventories to identify slow-moving and obsolete inventories. The amount of the impairment loss is measured as the difference between inventories' cost and realized value.

The identification of impairment of inventories requires the use of judgment and estimate of expected net realized value. Where the net realized value is lower than the cost, a material impairment loss may arise. As at December 31, 2008, 2009, 2010 and March 31, 2011, the carrying amount of inventories was RMB343,805,000, RMB270,290,000, RMB410,263,000 and RMB360,386,000, net of write-down of inventories of RMB23,002,000, RMB32,587,000, RMB30,839,000 and RMB33,121,000 respectively.

*Useful lives of property, plant and equipment*

The Group reviews the estimated useful lives of property, plant and equipment at the end of each annual reporting period. During the Track Record Period, management is satisfied that there is no change in the estimated useful lives of the property, plant and equipment from prior year. The carrying amounts of property, plant and equipment at the end of the reporting period are disclosed in Note 15.

*Impairment of property, plant and equipment*

At the end of the reporting period, management reviews the carrying amounts of its property, plant and equipment to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, management carried out impairment reviews of its property, plant and equipment. In making its judgment, management considered the future cash flows expected to arise from the cash generating unit and suitable discount rates in order to calculate the present value. As at December 31, 2008, 2009, 2010 and March 31, 2011, the carrying amount of property, plant and equipment was RMB89,000,000, RMB78,777,000, RMB86,277,000 and RMB93,315,000 respectively.

*Share-based payment transactions*

The Group used valuation techniques that include inputs that are not based on observable market data to estimate the fair value of the share options granted. Note 33 provides detailed information about the key assumptions used in the determination of the fair value of the share options.

**A. FINANCIAL INFORMATION—(continued)**

**Notes to the Financial Information—(continued)**

**4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY—(continued)**

*Share-based payment transactions—(continued)*

The share options granted is recognized as an expense on a straight-line basis over the vesting period using the fair value of the share options at the grant date. The management estimates at the end of the reporting period the likelihood and number of share options that are expected to ultimately vest. For the three years ended December 31, 2008, 2009, 2010, and three months ended March 31, 2010 and 2011, RMB976,000, RMB2,098,000, RMB7,502,000, RMB7,502,000 (unaudited) and nil was recognized as an expense respectively.

The directors of the Company believe that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of the share options.

*Revenue recognition in relation to the award credits earned by the customers under the Group's customer loyalty program*

In accordance with the Group's accounting policy, sales of goods that result in award credits for customers under the Group's customer loyalty program are accounted for as multiple element revenue transactions and the fair value of the consideration received or receivable is allocated between the goods sold and the award credits that are earned by the customers. The portion allocated to the award credits is deferred and recognized as revenue when the award credits are redeemed and the Group's obligations have been fulfilled. The amount of revenue recognized is based on the number of award credits that have been redeemed in exchange for awards, relative to the total number expected to be redeemed. The Group's customer loyalty program was first launched in May 2010 with a term of 1 or 2 years, therefore, no credit awards are yet expired and confirmed to be not redeemed during the Track Record Period. The Group reviews the total number of award credits expected to be redeemed at the end of each annual reporting period, taking into accounts of various factors including the number of award credits not redeemed by the customers upon expiry of respective award credits. In view of the short period of operation of the Group's customer loyalty program, and lack of historical information regarding the proportion of award credits that would be redeemed during the valid period of the award credits, the directors of the Company, in determining the total number of award credits expected to be redeemed, estimate that no customer will not redeem the award credit points under its customer loyalty program and all of the award credits earned by the customers would be redeemed within one year. The amount of deferred revenue recognized in accordance with IFRIC Interpretation 13 "Customer Loyalty Programmes" is accordingly classified as current liability at the end of the reporting period. As at December 31, 2008, 2009, 2010, and March 31, 2011, the carrying amount of deferred revenue was nil, nil, RMB8,581,000 and RMB10,741,000 respectively.

This estimate will be reviewed on an ongoing basis, and revision to the total number of award credits expected to be redeemed will be made if there is significant difference between the actual number of award credits redeemed and the expected number redeemed in the future.

## A. FINANCIAL INFORMATION—(continued)

**Notes to the Financial Information—(continued)**

### 5. CAPITAL RISKS MANAGEMENT AND FINANCIAL INSTRUMENTS

**Capital risk management**

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to shareholders through the optimization of the debt and equity balance. The Group's overall strategy remains unchanged during the Track Record Period, and the Group is in compliance with all capital requirements on its external borrowings.

The capital structure of the Group consists of debt, which includes the bank borrowings and equity attributable to owners the Company, comprising share capital and reserves.

The management of the Group reviews the capital structure on an on-going basis. As part of this review, the management considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the management, the Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the repayment of existing debt.

**Categories of financial instruments**

The carrying amounts of financial assets and financial liabilities are as follows:

**The Group**

| | As at December 31, | | | As at March 31, |
|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2011 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **Financial assets** | | | | |
| Loans and receivables (including cash and cash equivalents) | 283,300 | 491,643 | 384,256 | 392,462 |
| **Financial liabilities** | | | | |
| Amortized cost | 152,252 | 200,787 | 223,342 | 211,165 |

**The Company**

| | As at December 31, | | | As at March 31, |
|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2011 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **Financial assets** | | | | |
| Loans and receivables (including cash and cash equivalents) | 117,701 | 112,670 | 212,158 | 144,080 |
| **Financial liabilities** | | | | |
| Amortized cost | 55,288 | 67,477 | 61,353 | 64,456 |

**Financial risk management objectives and policies**

The Group's major financial instruments include trade and other receivables, long-term deposit, trade and other payables, short-term bank loans, bank balances and cash and pledged bank deposits. Details of these financial instruments are disclosed in respective notes.

## A. FINANCIAL INFORMATION—(continued)

**Notes to the Financial Information—(continued)**

### 5. CAPITAL RISKS MANAGEMENT AND FINANCIAL INSTRUMENTS—(continued)

**Financial risk management objectives and policies—(continued)**

The risk associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

**Foreign currency risk management**

The primary economic environment in which the principal subsidiaries of the Company operate is the PRC and their functional currency is RMB. However, certain sales and purchases of the Group are denominated in USD, which is currencies other than the functional currency of the relevant group entities and exposure the Group to foreign currency risk. Transactions in Singapore Dollars ("SGD") and HKD are limited.

The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the respective reporting periods are as follows:

**The Group**

| | As at December 31, | | | As at March 31, |
|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2011 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **Assets** | | | | |
| USD | 82,476 | 41,318 | 34,460 | 18,342 |
| SGD | 245 | 275 | 2,769 | 2,511 |
| HKD | 36 | 182 | 14,165 | 4,330 |
| **Liabilities** | | | | |
| USD | 48,374 | 41,768 | — | 64,260 |

**The Company**

| | As at December 31, | | | As at March 31, |
|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2011 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **Assets** | | | | |
| USD | 42,047 | 498 | 10,348 | 14,373 |
| SGD | 203 | 232 | 2,701 | — |
| HKD | 32 | 23 | 8 | 18 |
| **Liabilities** | | | | |
| USD | 41,008 | 40,893 | — | 64,260 |

The Group currently does not have a foreign currency hedging policy but the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

**A. FINANCIAL INFORMATION—(continued)**

**Notes to the Financial Information—(continued)**

**5. CAPITAL RISKS MANAGEMENT AND FINANCIAL INSTRUMENTS—(continued)**

*Foreign currency sensitivity analysis*

The following table details the Group's sensitivity to a 5% change in RMB against USD, SGD, and HKD. 5% represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currencies denominated monetary items and adjusts their translation at each of the end of the reporting period for a 5% change in foreign currency rates. A positive (negative) number below indicates an increase (decrease) in net profit for the year/period where the relevant foreign currencies strengthen 5% against RMB. For a 5% weakening of the relevant foreign currency against RMB, there would be an equal and opposite impact on the net profit for the year/period.

| | Year ended December 31, | | | Three months ended March 31, |
|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2011 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **The Group** | | | | |
| USD impact | 1,705 | (23) | 1,723 | (2,296) |
| SGD impact | 12 | 14 | 138 | 126 |
| HKD impact | 2 | 9 | 708 | 217 |
| **The Company** | | | | |
| USD impact | 52 | (2,020) | 517 | (2,494) |
| SGD impact | 10 | 12 | 135 | — |
| HKD impact | 2 | 1 | — | 1 |

**Interest rate risk management**

The Group's fair value interest rate risk relates primarily to its fixed-rate bank deposits and fixed-rate bank borrowings. The Group's cash flow interest rate risk relates primarily to its variable-rate bank balances which carry prevailing market interest rates and its variable-rate bank borrowings. The exposure relating to bank balances is minimal to the Group as the bank balances are all short-term in nature. The Group currently has not entered into interest rate swaps to hedge against its exposure to changes in fair values of the borrowings. Currently, the Group does not have an interest rate hedging policy. However, management monitors interest rate exposure and will consider restructuring the Group's credit facilities should the need arise.

The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of LIBOR arising from the Group's USD denominated bank borrowings.

*Interest rate sensitivity analysis*

The sensitivity analyses below have been determined based on the exposure to interest rates for variable-rate bank borrowings at the end of the Track Record Period. For variable-rate bank borrowings, the analysis is prepared assuming the amount of liabilities outstanding at the end of the Track Record Period was outstanding for the whole year. A 50 basis point increase or decrease in LIBOR is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the possible change in interest rates.

**A. FINANCIAL INFORMATION—(continued)**

**Notes to the Financial Information—(continued)**

**5. CAPITAL RISKS MANAGEMENT AND FINANCIAL INSTRUMENTS—(continued)**

**Interest rate risk management—(continued)**

*Interest rate sensitivity analysis—(continued)*

If interest rate had been 50 basis points higher/lower and all other variables were held constant, the Group's net profit for the year ended December 31, 2008, 2009 and 2010 and three months ended March 31, 2011 would decrease/increase by RMB nil, RMB nil, RMB nil and RMB 321,300 respectively. This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowings.

**Credit risk management**

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. Before accepting any new customer, the Group has to assess the potential customer's credit quality and defines credit limits by customer. The Group uses publicly available financial information and its own trading records to rate its major customers. The Group only transacts with customers that have good credit quality. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by the counterparty limits that are reviewed and approved by the management.

The Group's credit risk primarily relates to the Group's trade and other receivables, bank balances and cash and pledged bank deposits. There is significant concentration of credit risk as the top five biggest customers account for over approximately 24%, 19%, 10% and 9% of the carrying amounts of trade receivables as at December 31, 2008, 2009, 2010 and March 31, 2011. The management of the Group generally grants credit only to customers with good credit ratings and also closely monitors overdue trade debts. The recoverable amount of each individual trade debt is reviewed at the end of each reporting period and impairment for doubtful debts, if any, has been made for irrecoverable amounts. In this regard, the management of the Group considers that the credit risk associated with the Group's trade and other receivables is significantly reduced.

The credit risk in relation to the Group's bank balances and cash and pledged bank deposits is not significant as the corresponding banks are reputable banking institutions.

**Liquidity risk management**

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

## A. FINANCIAL INFORMATION—(continued)

### Notes to the Financial Information—(continued)

### 5. CAPITAL RISKS MANAGEMENT AND FINANCIAL INSTRUMENTS—(continued)

### Liquidity risk management—(continued)

The following tables detail the Group's and the Company's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date in which the Group can be required to pay. The tables include both interest and principal cash flows.

| | Weighted average effective interest rate | On demand or less than 1 year | Between 1 to 5 years | Total undiscounted cash flows | Carrying amount |
|---|---|---|---|---|---|
| | % | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **The Group** | | | | | |
| **At December 31, 2008** | | | | | |
| **Financial liabilities** | | | | | |
| Trade and other payables | — | 111,244 | — | 111,244 | 111,244 |
| Fixed-rate short-term bank loans | 5.85 | 42,807 | — | 42,807 | 41,008 |
| | | 154,051 | — | 154,051 | 152,252 |
| **At December 31, 2009** | | | | | |
| **Financial liabilities** | | | | | |
| Trade and other payables | — | 159,894 | — | 159,894 | 159,894 |
| Fixed-rate short-term bank loans | 2.50 | 41,660 | — | 41,660 | 40,893 |
| | | 201,554 | — | 201,554 | 200,787 |
| **At December 31, 2010** | | | | | |
| **Financial liabilities** | | | | | |
| Trade and other payables | — | 223,342 | — | 223,342 | 223,342 |
| **At March 31, 2011** | | | | | |
| **Financial liabilities** | | | | | |
| Trade and other payables | — | 146,905 | — | 146,905 | 146,905 |
| Variable-rate short-term bank loans | 4.259 | 66,449 | — | 66,449 | 64,260 |
| | | 213,354 | — | 213,354 | 211,165 |
| **The Company** | | | | | |
| **At December 31, 2008** | | | | | |
| **Financial liabilities** | | | | | |
| Trade and other payables | — | 14,280 | — | 14,280 | 14,280 |
| Fixed-rate short-term bank loans | 5.85 | 42,807 | — | 42,807 | 41,008 |
| | | 57,087 | — | 57,087 | 55,288 |
| **At December 31, 2009** | | | | | |
| **Financial liabilities** | | | | | |
| Trade and other payables | — | 26,584 | — | 26,584 | 26,584 |
| Fixed-rate short-term bank loans | 2.50 | 41,660 | — | 41,660 | 40,893 |
| | | 68,244 | — | 68,244 | 67,477 |
| **At December 31, 2010** | | | | | |
| **Financial liabilities** | | | | | |
| Trade and other payables | — | 61,353 | — | 61,353 | 61,353 |
| **At March 31, 2011** | | | | | |
| **Financial liabilities** | | | | | |
| Trade and other payables | — | 196 | — | 196 | 196 |
| Variable-rate short-term bank loans | 4.259 | 66,449 | — | 66,449 | 64,260 |
| | | 66,645 | — | 66,645 | 64,456 |

## A. FINANCIAL INFORMATION—(continued)

**Notes to the Financial Information—(continued)**

## 5. CAPITAL RISKS MANAGEMENT AND FINANCIAL INSTRUMENTS—(continued)

**Fair value**

The fair value of the Group's financial assets and financial liabilities are determined as follows:

- the fair value of financial assets with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market bid prices and ask prices, respectively; and
- the fair value of other financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortized cost in the Financial Information approximate their fair values.

## 6. REVENUE AND SEGMENT INFORMATION

The Group has consistently applied IFRS 8 *Operating Segments* throughout the Track Record Period. IFRS 8 is a disclosure standard that requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker (the "CODM"), the board of directors of the Company in order to allocate resources to segments and to assess their performance.

The Group is organized into business unit based on the different types of customers, based on which information is prepared and reported to the Group's CODM for the purpose of resources allocation and assessment of performance.

For management purpose, the Group is organized into two segments, i.e. retail and wholesale of branded fashion footwear ("Retail and Wholesale") and contract manufacturing of footwear ("Contract manufacturing"). These segments are the basis on which the Group report its segment information.

## A. FINANCIAL INFORMATION—(continued)

### Notes to the Financial Information—(continued)

### 6. REVENUE AND SEGMENT INFORMATION—(continued)

The following is an analysis of the Group's revenue and results from continuing operations by operating segments for the Track Record Period:

| | Year ended December 31, | | | Three months ended March 31, | |
|---|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2010 | 2011 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 (unaudited) | RMB'000 |
| **Segment revenue** | | | | | |
| Retail and wholesale | | | | | |
| —external sales | 827,850 | 1,095,845 | 1,366,916 | 324,534 | 419,507 |
| Contract manufacturing | | | | | |
| —external sales | 216,109 | 189,079 | 208,047 | 49,011 | 45,589 |
| —inter-segment sales | — | 4,602 | 15,003 | — | 2,699 |
| Eliminations | — | (4,602) | (15,003) | — | (2,699) |
| | 1,043,959 | 1,284,924 | 1,574,963 | 373,545 | 465,096 |
| **Segment results** | | | | | |
| Retail and wholesale | 114,535 | 107,169 | 225,332 | 40,202 | 90,398 |
| Contract manufacturing | 23,486 | 21,892 | 18,272 | 3,260 | 3,237 |
| | 138,021 | 129,061 | 243,604 | 43,462 | 93,635 |
| Unallocated finance costs | (613) | (1,015) | (903) | (780) | (185) |
| Share of loss of joint ventures | (10,560) | (4,410) | (2,996) | (1,402) | (436) |
| Profit before income tax | 126,848 | 123,636 | 239,705 | 41,280 | 93,014 |
| Income tax expense | (20,004) | (32,603) | (67,643) | (10,756) | (24,660) |
| Net profit for the year/period | 106,844 | 91,033 | 172,062 | 30,524 | 68,354 |

The accounting policies of the operating segments are the same as the Group's accounting policies described in Note 3 to the Financial Information. Segment results represents the gross profits earned by each segment add other income and other gains and losses and less distribution and selling expense and administrative and general expenses. This is the measure reported to CODM for the purpose of resource allocation and performance assessment.

Inter-segment sales are charged at prevailing market prices.

**A. FINANCIAL INFORMATION—(continued)**

**Notes to the Financial Information—(continued)**

**6. REVENUE AND SEGMENT INFORMATION—(continued)**

The following is an analysis of the Group's assets and liabilities by operating segment:

**Segment assets**

| | As at December 31, | | | As at March 31, |
|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2011 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Continuing operations | | | | |
| Retail and wholesale | 596,735 | 794,035 | 908,226 | 895,741 |
| Contract manufacturing | 205,280 | 215,807 | 236,980 | 223,764 |
| Eliminations | (91,896) | (110,022) | (154,217) | (159,059) |
| Total segment assets | 710,119 | 899,820 | 990,989 | 960,446 |
| Assets relating to discontinued operations | 57,162 | 38,238 | — | — |
| Unallocated | 12,771 | 5,720 | 5,804 | 5,489 |
| Consolidated assets | 780,052 | 943,778 | 996,793 | 965,935 |

**Segment liabilities**

| | As at December 31, | | | As at March 31, |
|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2011 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Continuing operations | | | | |
| Retail and wholesale | 142,205 | 241,593 | 311,081 | 291,316 |
| Contract manufacturing | 87,611 | 77,796 | 80,583 | 64,196 |
| Eliminations | (34,228) | (34,228) | (36,957) | (35,576) |
| Total segment liabilities | 195,588 | 285,161 | 354,707 | 319,936 |
| Liabilities relating to discontinued operations | 9,889 | 2,313 | — | — |
| Consolidated liabilities | 205,477 | 287,474 | 354,707 | 319,936 |

## A. FINANCIAL INFORMATION—(continued)

**Notes to the Financial Information—(continued)**

### 6. REVENUE AND SEGMENT INFORMATION—(continued)

*Other segment information*

Continuing operations

| | Retail and wholesale | Contract manufacturing | Total |
|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 |
| Amounts included in the measure of segment results: | | | |
| **For the year ended December 31, 2008** | | | |
| Depreciation of property, plant and equipment | 7,796 | 3,569 | 11,365 |
| Amortization of intangible assets | 284 | — | 284 |
| Amortization of prepaid lease payments | 549 | — | 549 |
| Impairment of goodwill | 2,500 | — | 2,500 |
| Allowance for inventories obsolescence | 7,583 | 62 | 7,645 |
| Purchase of property, plant and equipment | 8,571 | 1,653 | 10,224 |
| Purchase of intangible assets | 720 | — | 720 |
| Expense recognized in respect of equity-settled share-based payments | 724 | 172 | 896 |
| **For the year ended December 31, 2009** | | | |
| Depreciation of property, plant and equipment | 8,419 | 3,967 | 12,386 |
| Amortization of intangible assets | 231 | — | 231 |
| Amortization of prepaid lease payments | 384 | — | 384 |
| Impairment of goodwill | 2,000 | — | 2,000 |
| Allowance for inventories obsolescence | 6,073 | (18) | 6,055 |
| Purchase of property, plant and equipment | 5,182 | 1,132 | 6,314 |
| Purchase of intangible assets | 863 | — | 863 |
| Expense recognized in respect of equity-settled share-based payments | 1,529 | 401 | 1,930 |
| **For the year ended December 31, 2010** | | | |
| Depreciation of property, plant and equipment | 10,376 | 3,878 | 14,254 |
| Amortization of intangible assets | 313 | — | 313 |
| Amortization of prepaid lease payments | 384 | — | 384 |
| Allowance for inventories obsolescence | 2,550 | 480 | 3,030 |
| Purchase of property, plant and equipment | 21,870 | 956 | 22,826 |
| Purchase of intangible assets | 407 | — | 407 |
| Expense recognized in respect of equity-settled share-based payments | 6,206 | 945 | 7,151 |
| **For the three-month ended March 31, 2010 (unaudited)** | | | |
| Depreciation of property, plant and equipment | 2,269 | 989 | 3,258 |
| Amortization of intangible assets | 76 | — | 76 |
| Amortization of prepaid lease payments | 96 | — | 96 |
| Allowance for inventories obsolescence | 2,417 | — | 2,417 |
| Purchase of property, plant and equipment | 2,565 | 50 | 2,615 |
| Expense recognized in respect of Equity-settled share-based payments | 6,206 | 945 | 7,151 |
| **For the three-month ended March 31, 2011** | | | |
| Depreciation of property, plant and equipment | 2,755 | 687 | 3,442 |
| Amortization of intangible assets | 91 | — | 91 |
| Amortization of prepaid lease payments | 96 | — | 96 |
| Allowance for inventories obsolescence | 2,282 | — | 2,282 |
| Purchase of property, plant and equipment | 10,599 | 185 | 10,784 |
| Purchase of intangible assets | 59 | — | 59 |

## A. FINANCIAL INFORMATION—(continued)

**Notes to the Financial Information—(continued)**

### 6. REVENUE AND SEGMENT INFORMATION—(continued)

*Geographical information*

The Group's operations are mainly located in the PRC.

The Group's revenue from continuing operations from external customers, based on location of customers and information about its non-current assets by geographical location of the assets are detailed below:

| | Revenue from external customers | | | | |
|---|---|---|---|---|---|
| | Year ended December 31, | | | Three months ended March 31, | |
| | 2008 | 2009 | 2010 | 2010 | 2011 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 (unaudited) | RMB'000 |
| PRC | 830,114 | 1,096,883 | 1,367,417 | 324,534 | 419,507 |
| United States of America | 114,284 | 160,581 | 207,546 | 49,011 | 45,589 |
| Australia | 23,858 | 8,457 | — | — | — |
| Others | 75,703 | 19,003 | — | — | — |
| Total | 1,043,959 | 1,284,924 | 1,574,963 | 373,545 | 465,096 |

| | Non-current assets (note) | | | |
|---|---|---|---|---|
| | As at December 31, | | | As at March 31, |
| | 2008 | 2009 | 2010 | 2011 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| PRC | 128,597 | 153,808 | 162,847 | 169,561 |
| United States of America | — | — | — | — |
| Australia | — | — | — | — |
| Others | — | — | — | — |
| Total | 128,597 | 153,808 | 162,847 | 169,561 |

Note: Non-current assets exclude goodwill and deferred tax assets.

There is no customer contributing over 10% of the total sales of the Group during the Track Record Period.

## A. FINANCIAL INFORMATION—(continued)

**Notes to the Financial Information—(continued)**

### 7. OTHER INCOME AND OTHER GAINS AND LOSSES

| | Year ended December 31, | | | Three months ended March 31, | |
|---|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2010 | 2011 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 (unaudited) | RMB'000 |
| **Continuing operations** | | | | | |
| Interest income on bank deposits | 2,165 | 3,109 | 2,682 | 1,686 | 329 |
| Government grants | 4,371 | 4,368 | 3,119 | 140 | 4,481 |
| Gain from changes in fair value of investment properties | — | 1,455 | 1,429 | — | — |
| Net foreign exchange gains (losses) | 317 | 127 | 268 | (103) | (636) |
| Loss on disposal of a subsidiary | — | — | (6) | — | — |
| Rental income from a jointly controlled entity | 214 | 214 | 71 | 36 | — |
| Others | 744 | 1,514 | 1,513 | 1,039 | — |
| | 7,811 | 10,787 | 9,076 | 2,798 | 4,174 |

### 8. FINANCE COSTS

| | Year ended December 31, | | | Three months ended March 31, | |
|---|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2010 | 2011 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 (unaudited) | RMB'000 |
| **Continuing operations** | | | | | |
| Interest on short-term bank loans | 613 | 1,015 | 903 | 780 | 185 |

### 9. PROFIT BEFORE TAX FROM CONTINUING OPERATIONS

Profit before tax for the year/period from continuing operations has been arrived at after charging (crediting):

| | Year ended December 31, | | | Three months ended March 31, | |
|---|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2010 | 2011 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 (unaudited) | RMB'000 |
| Depreciation of property, plant and equipment | 11,365 | 12,386 | 14,254 | 3,258 | 3,442 |
| Amortization of prepaid lease payments | 549 | 384 | 384 | 96 | 96 |
| Amortization of intangible assets | 284 | 231 | 313 | 76 | 91 |
| Total depreciation and amortization | 12,198 | 13,001 | 14,951 | 3,430 | 3,629 |
| Auditors' remuneration | 1,490 | 1,600 | 1,500 | 363 | 474 |
| Employee benefits expense | 173,500 | 196,124 | 255,909 | 48,609 | 70,390 |
| Cost of inventories recognized as an expense (including allowance for inventories obsolescence) | 411,322 | 562,321 | 501,615 | 148,124 | 154,462 |
| Impairment of goodwill | 2,500 | 2,000 | — | — | — |
| Loss on disposal of property, plant and equipment | — | 500 | — | — | — |

## A. FINANCIAL INFORMATION—(continued)

**Notes to the Financial Information—(continued)**

### 10. INCOME TAX EXPENSE (RELATING TO CONTINUING OPERATIONS)

| | Year ended December 31, | | | Three months ended March 31, | |
|---|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2010 | 2011 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 (unaudited) | RMB'000 |
| Current tax: | | | | | |
| PRC Enterprise Income Tax ("EIT") | 20,093 | 32,396 | 65,082 | 10,381 | 25,754 |
| Withholding tax | — | — | 4,550 | — | — |
| Under provision of EIT in prior years | — | 50 | 117 | — | — |
| Deferred tax charge (credit): | | | | | |
| Current year/period | (89) | 157 | (2,106) | 375 | (1,094) |
| | 20,004 | 32,603 | 67,643 | 10,756 | 24,660 |

The tax charge for the Track Record Period can be reconciled to the profit before tax from continuing operations per the consolidated statements of comprehensive income as follows:

| | Year ended December 31, | | | Three months ended March 31, | |
|---|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2010 | 2011 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 (unaudited) | RMB'000 |
| Profit before tax (from continuing operations) | 126,848 | 123,636 | 239,705 | 41,280 | 93,014 |
| Tax at the PRC EIT rate of 25% | 31,712 | 30,909 | 59,926 | 10,320 | 23,254 |
| Tax effect of share of losses of joint ventures | 1,562 | 1,763 | 875 | 397 | 79 |
| Tax effect of expenses not deductible for tax purpose | 8,975 | 7,229 | 8,026 | 700 | 1,401 |
| Tax effect of income not taxable in other jurisdiction | (4,915) | (4,409) | (4,017) | (1,121) | (744) |
| Under provision in respect of prior years | — | 50 | 117 | — | — |
| Tax effect of PRC EIT exemption | (18,982) | (4,308) | (2,813) | (519) | — |
| Withholding tax | 1,652 | 1,369 | 5,529 | 979 | 670 |
| Income tax expense for the year/period (relating to continuing operations) | 20,004 | 32,603 | 67,643 | 10,756 | 24,660 |

The Company incorporated in Bermuda is not subject to local income tax since its incorporation.

Best Invent and Best Value incorporated in the BVI are not subject to local income tax since their incorporation.

Allied Great and China Ease incorporated in Hong Kong have had no assessable profits subject to Hong Kong profits tax since their incorporation.

PRC EIT is calculated at the applicable tax rates in accordance with relevant laws and regulations in the PRC.

Nanjing Mayflower and Nanjing Soft, both being foreign invested enterprise registered in Nanjing, Jiangsu in the PRC, are entitled to an exemption from EIT for two years starting from their first profit-making year, followed by a 50% tax relief for the following three years. Nanjing Mayflower

## A. FINANCIAL INFORMATION—(continued)

**Notes to the Financial Information—(continued)**

## 10. INCOME TAX EXPENSE (RELATING TO CONTINUING OPERATIONS)—(continued)

was entitled to and enjoyed the first tax exemption year in 2004, and a 50% tax relief for the three years ended December 31, 2008. Nanjing Soft was entitled to and enjoyed the first tax exemption year in 2006, and a 50% tax relief for the three years ended December 31, 2010.

On March 16, 2007, the PRC promulgated the Law of the PRC on EIT (the "New Tax Law") by Order No. 63 of the President of the PRC, which has unified the EIT tax rate to 25% for all PRC enterprises from January 1, 2008. On December 6, 2007, the State Council of the PRC issued Implementation Regulations of the New Tax Law (the "Implementation Regulations").

According to the Circular of the State Council on the Implementation of Transitional Preferential Policies for Enterprise Income Tax (Guofa (2007) No.39), the tax concessions of Nanjing Mayflower and Nanjing Soft are still applicable under the New Tax Law. Therefore, the applicable income tax rate for Nanjing Mayflower was 12.5% for the year of 2008, while the applicable income tax rate for Nanjing Soft was 12.5% for the three years from 2008 to 2010.

The applicable income tax rate for Dongguan Mayflower, Suining Shufute, Nanjing Ruihe, and Dongguan Industries was 25% from January 1, 2008 onwards.

Upon the New Tax Law and Implementation Regulations, PRC withholding income tax is applicable to dividends payable to investors that are "non-PRC tax resident enterprises", which do not have an establishment or place of business in the PRC, or which have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business, to the extent such dividends have their sources within the PRC. Under such circumstances, dividends distributed from the PRC subsidiaries to non-PRC tax resident group entities in Hong Kong shall be subject to the withholding tax at 5%. Deferred tax in relation to withholding income tax for the undistributed profits of PRC entities, amounting to RMB96,203,000, RMB178,305,000, RMB258,486,000 and RMB318,384,000 as at December 31, 2008, 2009, 2010 and March 31, 2011 respectively have not been provided, as the directors of the Company did not anticipate to distribute such profits from its PRC subsidiaries in the foreseeable future.

## 11. DISCONTINUED OPERATIONS

On December 8, 2010, the Group entered into a transfer agreement with a related company to dispose of a subsidiary, Jiangsu Unity, which carried out all of the Group's retail and wholesale of international and domestic branded apparel operations. The disposal was completed on December 8, 2010, on which date control of Jiangsu Unity passed to the acquirer. Details of the assets and liabilities disposed of, and the calculation of the loss on disposal, are set out in Note 35.

**A. FINANCIAL INFORMATION—(continued)**

**Notes to the Financial Information—(continued)**

**11. DISCONTINUED OPERATIONS—(continued)**

The results of the discontinued operations (i.e. Jiangsu Unity) included in the consolidated statements of comprehensive income and consolidated statement of cash flows for the two years ended December 31, 2009 and for the period from January 1, 2010 to December 8, 2010, are set out below:

Loss for the year/period from discontinued operations

| | Year ended December 31, | | Period ended December 8, | Three months ended March 31, | |
|---|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2010 | 2011 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 (unaudited) | RMB'000 |
| Revenue | 66,779 | 32,350 | 18,324 | 6,054 | — |
| Cost of sales | (52,070) | (28,860) | (15,569) | (4,507) | — |
| Other income and other gains and losses | 328 | 74 | — | — | — |
| Distribution and selling expenses | (12,194) | (11,787) | (3,617) | (1,305) | — |
| Administrative and general expenses | (3,592) | (2,604) | (1,345) | (713) | — |
| Loss before tax | (749) | (10,827) | (2,207) | (471) | — |
| Income tax credit (expense) | 330 | (575) | — | — | — |
| Loss for the year/period | (419) | (11,402) | (2,207) | (471) | — |

Loss for the year/period from discontinued operations include the following:

| | 2008 | 2009 | 2010 | 2010 | 2011 |
|---|---|---|---|---|---|
| Depreciation of property, plant and equipment | 1,959 | 5,217 | 619 | 41 | — |
| Amortization of intangible assets | 139 | 159 | 42 | 11 | — |
| Total depreciation and amortization | 2,098 | 5,376 | 661 | 52 | — |
| Employee benefits expense: | | | | | |
| Cost of defined contribution plans | 1,353 | 651 | 454 | 142 | — |
| Share-based payments | 80 | 168 | 351 | 351 | — |
| Other employee benefits | 8,227 | 5,369 | 2,003 | 700 | — |
| Total employee benefits expense | 9,660 | 6,188 | 2,808 | 1,193 | — |
| Cost of inventories recognized as an expense (including allowance for inventories obsolescence) | 52,070 | 28,860 | 15,569 | 4,507 | — |
| Loss (gain) on disposal of property, plant and equipment | 127 | (10) | — | — | — |

Cash flows from discontinued operations

| | 2008 | 2009 | 2010 | 2010 | 2011 |
|---|---|---|---|---|---|
| Net cash from operating activities | 15,234 | 8,542 | 269 | 266 | — |
| Net cash used in investing activities | (2,637) | (2,082) | (381) | (129) | — |
| Net cash inflows (outflows) | 12,597 | 6,460 | (112) | 137 | — |

PRC EIT is calculated at the applicable tax rates at 25% during the Track Record Period.

## A. FINANCIAL INFORMATION—(continued)

### Notes to the Financial Information—(continued)

### 12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Details of the emoluments paid to the directors of the Company for the Track Record Period were as follows:

| | Year ended December 31, | | | Three months ended March 31, | |
|---|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2010 | 2011 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 (unaudited) | RMB'000 |
| Directors' emoluments: | | | | | |
| —Directors' fee | 808 | 826 | — | — | — |
| —Salaries and other benefits | 1,322 | 1,337 | 2,152 | 328 | 615 |
| —Performance related incentive payments (note (4)) | 14,011 | 12,527 | 18,049 | 3,727 | 4,460 |
| —Share based payments | 169 | 389 | 950 | 950 | — |
| —Contributions to retirement benefits scheme | 48 | 69 | 63 | 16 | 16 |
| Total | 16,358 | 15,148 | 21,214 | 5,021 | 5,091 |

## A. FINANCIAL INFORMATION—(continued)

### Notes to the Financial Information—(continued)

### 12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS—(continued)

| | Directors' fee | Salaries and other benefits | Performance related incentive payments | Share-based payments | Contributions to retirement benefits scheme | Total |
|---|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **For the year ended December 31, 2008** | | | | | | |
| Chen Yixi | — | 334 | 5,605 | — | — | 5,939 |
| Li Wei | — | 406 | 4,203 | — | 6 | 4,615 |
| Zhao Wei | — | 218 | 1,401 | 46 | 15 | 1,680 |
| Huo Li | — | 182 | 1,401 | 40 | 14 | 1,637 |
| Xu Tingyu (note (1)) | — | 182 | 1,401 | 32 | 13 | 1,628 |
| Miao Bingwen | — | — | — | — | — | — |
| Gui Zuhua (note (2)) | — | — | — | — | — | — |
| Chen Seow Phun John | 285 | — | — | 17 | — | 302 |
| S. Chandra Das | 250 | — | — | 17 | — | 267 |
| Liu Yunguang | 273 | — | — | 17 | — | 290 |
| | 808 | 1,322 | 14,011 | 169 | 48 | 16,358 |
| **For the year ended December 31, 2009** | | | | | | |
| Chen Yixi | — | 328 | 5,010 | — | — | 5,338 |
| Li Wei | — | 431 | 3,758 | — | 18 | 4,207 |
| Zhao Wei | — | 196 | 1,253 | 107 | 18 | 1,574 |
| Huo Li | — | 191 | 1,253 | 93 | 18 | 1,555 |
| Xu Tingyu | — | 191 | 1,253 | 75 | 15 | 1,534 |
| Miao Bingwen | — | — | — | — | — | — |
| Chen Seow Phun John | 292 | — | — | 38 | — | 330 |
| S. Chandra Das | 255 | — | — | 38 | — | 293 |
| Liu Yunguang | 279 | — | — | 38 | — | 317 |
| | 826 | 1,337 | 12,527 | 389 | 69 | 15,148 |
| **For the year ended December 31, 2010** | | | | | | |
| Chen Yixi | — | 326 | 7,219 | — | — | 7,545 |
| Li Wei | — | 607 | 5,415 | — | 16 | 6,038 |
| Zhao Wei | — | 473 | 1,805 | 255 | 17 | 2,550 |
| Huo Li | — | 418 | 1,805 | 222 | 16 | 2,461 |
| Xu Tingyu | — | 328 | 1,805 | 179 | 14 | 2,326 |
| Miao Bingwen | — | — | — | — | — | — |
| Chen Seow Phun John (note (3)) | — | — | — | 98 | — | 98 |
| S. Chandra Das (note (3)) | — | — | — | 98 | — | 98 |
| Liu Yunguang (note (3)) | — | — | — | 98 | — | 98 |
| | — | 2,152 | 18,049 | 950 | 63 | 21,214 |

## A. FINANCIAL INFORMATION—(continued)

**Notes to the Financial Information—(continued)**

### 12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS—(continued)

| | Directors' fee | Salaries and other benefits | Performance related incentive payments | Share-based payments | Contributions to retirement benefits scheme | Total |
|---|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **For the three-month period ended March 31, 2010 (unaudited)** | | | | | | |
| Chen Yixi | — | 82 | 1,190 | — | — | 1,272 |
| Li Wei | — | 104 | 1,268 | — | 4 | 1,376 |
| Zhao Wei | — | 50 | 423 | 255 | 4 | 732 |
| Huo Li | — | 46 | 423 | 222 | 4 | 695 |
| Xu Tingyu | — | 46 | 423 | 179 | 4 | 652 |
| Miao Bingwen | — | — | — | — | — | — |
| Chen Seow Phun John (note (3)) | — | — | — | 98 | — | 98 |
| S. Chandra Das (note (3)) | — | — | — | 98 | — | 98 |
| Liu Yunguang (note (3)) | — | — | — | 98 | — | 98 |
| | — | 328 | 3,727 | 950 | 16 | 5,021 |
| **For the three-month period ended March 31, 2011** | | | | | | |
| Chen Yixi | — | 79 | 1,620 | — | — | 1,699 |
| Li Wei | — | 163 | 710 | — | 4 | 877 |
| Zhao Wei | — | 150 | 710 | — | 4 | 864 |
| Huo Li | — | 131 | 710 | — | 4 | 845 |
| Xu Tingyu | — | 92 | 710 | — | 4 | 806 |
| Miao Bingwen | — | — | — | — | — | — |
| | — | 615 | 4,460 | — | 16 | 5,091 |

Notes:

(1) The director was appointed on March 1, 2008.

(2) The director resigned on February 29, 2008.

(3) The directors resigned on May 23, 2010.

(4) The performance related incentive payments is determined as a percentage of the net profit of the Group during the Track Record Period.

The five highest paid individuals included 5, 5, 5, 5 and 5 directors of the Group, for each of the years ended December 31, 2008, 2009 and 2010 and each of the three months ended March 31, 2010 and 2011, respectively. Details of whose emoluments are set out above.

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

### 13. DIVIDEND

In 2008, a final dividend of USD 0.0097 per share amounting to USD 3,850,000 (equivalent to RMB 26,836,000) was paid to shareholders.

No dividend was paid or proposed for the year ended December 31, 2009.

## A. FINANCIAL INFORMATION—(continued)

**Notes to the Financial Information—(continued)**

### 13. DIVIDEND—(continued)

In 2010, a dividend of USD 0.0711 per share amounting to USD 28,200,000 (equivalent to RMB 191,575,000) was proposed and paid to shareholders.

For the three months ended March 31, 2011, a dividend of USD 0.0247 per share amounting to USD 9,801,000 (equivalent to RMB 64,441,000) was proposed and paid to shareholders.

### 14. EARNINGS PER SHARE

**For continuing and discontinued operations**

The calculation of the basic earnings per share attributable to owners of the Company for the Track Record Period is based on the following data:

| | Year ended December 31, | | | Three months ended March 31, | |
|---|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2010 | 2011 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 (unaudited) | RMB'000 |
| **Earnings** | | | | | |
| Earnings for the purpose of basic earnings per share | 106,425 | 79,631 | 169,855 | 30,053 | 68,354 |
| **Number of shares ('000)** | | | | | |
| Number of ordinary shares for the purpose of basic earnings per share | 1,700,000 | 1,700,000 | 1,700,000 | 1,700,000 | 1,700,000 |
| Earnings per share (RMB cents) | | | | | |
| —Basic | 6.26 | 4.68 | 9.99 | 1.77 | 4.02 |

The number of ordinary shares for the purpose of calculating basic earnings per share for the Track Record Period has been retrospectively adjusted for the capitalization issue disclosed in Appendix VII to the Prospectus as if the shares had been in issue throughout the Track Record Period.

No diluted earnings per share had been presented throughout the Track Record Period because the exercise price of the Company's outstanding share options, after adjustment for future services to be rendered according to IFRS 2 "Share-based Payment", was higher than the average market price of the Company's shares throughout the Track Record Period.

## A. FINANCIAL INFORMATION—(continued)

**Notes to the Financial Information—(continued)**

### 14. EARNINGS PER SHARE—(continued)

**For continuing operations**

The calculation of the basic earnings per share from continuing operations attributable to owners of the Company for the Track Record Period is based on the following data:

Earning figures are calculated as follows:

| | Year ended December 31, | | | Three months ended March 31, | |
|---|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2010 | 2011 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 (unaudited) | RMB'000 |
| **Earnings** | | | | | |
| Profit for the year/period attributable to owners of the Company | 106,425 | 79,631 | 169,855 | 30,053 | 68,354 |
| Less: | | | | | |
| Loss for the year/period from discontinued operations | (419) | (11,402) | (2,207) | (471) | — |
| Earnings for the purpose of basic earnings per share from continuing operations | 106,844 | 91,033 | 172,062 | 30,524 | 68,354 |

The denominators used are the same as those detailed above for calculation of basic earnings per share from continuing and discontinued operations.

**From discontinued operations**

Basic loss per share for the discontinued operations is RMB 0.02 cents, RMB 0.67 cents, RMB 0.13 cents, RMB 0.03 cents and nil per share for the year ended December 31, 2008, 2009, 2010 and for each of the three months ended March 31, 2010 and 2011 respectively based on the loss for the year/period from the discontinued operations of RMB 419,000, RMB 11,402,000, RMB 2,207,000 and RMB 471,000 and nil for respective year/period and the denominators used are the same as those detailed above for calculation of basic earnings per share from continuing operations.

## A. FINANCIAL INFORMATION—(continued)

**Notes to the Financial Information—(continued)**

## 15. PROPERTY, PLANT AND EQUIPMENT

**The Group**

| | Buildings | Machinery | Fixtures and equipment | Motor vehicles | Leasehold Improvements | Construction in progress | Total |
|---|---|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **COST** | | | | | | | |
| At January 1, 2008 | 49,852 | 27,964 | 22,274 | 8,359 | 9,013 | — | 117,462 |
| Additions | 19 | 4,778 | 2,702 | 1,723 | 2,868 | 458 | 12,548 |
| Disposals | — | — | (219) | — | — | — | (219) |
| At December 31, 2008 | 49,871 | 32,742 | 24,757 | 10,082 | 11,881 | 458 | 129,791 |
| Additions | | 566 | 2,014 | 2,138 | 3,629 | 454 | 8,801 |
| Transfers | — | — | — | — | 912 | (912) | — |
| Disposals | (482) | (1,895) | (363) | (1,510) | (18) | — | (4,268) |
| At December 31, 2009 | 49,389 | 31,413 | 26,408 | 10,710 | 16,404 | — | 134,324 |
| Additions | — | 5,068 | 2,891 | 7,872 | 3,795 | 3,581 | 23,207 |
| Transfer out on disposal of a subsidiary (Note 35) | — | — | (982) | (615) | (9,905) | — | (11,502) |
| Disposals | — | (172) | (26) | (491) | — | — | (689) |
| At December 31, 2010 | 49,389 | 36,309 | 28,291 | 17,476 | 10,294 | 3,581 | 145,340 |
| Additions | — | 1,138 | 411 | 2,771 | 1,326 | 5,138 | 10,784 |
| Disposals | — | — | (60) | (666) | — | — | (726) |
| At March 31, 2011 | 49,389 | 37,447 | 28,642 | 19,581 | 11,620 | 8,719 | 155,398 |
| **DEPRECIATION** | | | | | | | |
| At January 1, 2008 | 4,842 | 6,587 | 8,894 | 4,355 | 2,881 | — | 27,559 |
| Provided for the year | 2,277 | 3,034 | 3,697 | 1,307 | 3,009 | — | 13,324 |
| Eliminated on disposals | — | — | (92) | — | — | — | (92) |
| At December 31, 2008 | 7,119 | 9,621 | 12,499 | 5,662 | 5,890 | — | 40,791 |
| Provided for the year | 2,253 | 3,937 | 4,006 | 1,174 | 6,233 | — | 17,603 |
| Eliminated on disposals | (50) | (1,503) | (239) | (1,044) | (11) | — | (2,847) |
| At December 31, 2009 | 9,322 | 12,055 | 16,266 | 5,792 | 12,112 | — | 55,547 |
| Provided for the year | 2,248 | 3,204 | 4,747 | 2,627 | 2,047 | — | 14,873 |
| Transfer out on disposal of a subsidiary (Note 35) | — | — | (715) | (591) | (9,672) | — | (10,978) |
| Eliminated on disposals | — | (89) | (15) | (275) | — | — | (379) |
| At December 31, 2010 | 11,570 | 15,170 | 20,283 | 7,553 | 4,487 | — | 59,063 |
| Provided for the period | 562 | 513 | 1,121 | 626 | 620 | — | 3,442 |
| Eliminated on disposals | — | — | (28) | (394) | — | — | (422) |
| At March 31, 2011 | 12,132 | 15,683 | 21,376 | 7,785 | 5,107 | — | 62,083 |
| **CARRYING VALUES** | | | | | | | |
| At December 31, 2008 | 42,752 | 23,121 | 12,258 | 4,420 | 5,991 | 458 | 89,000 |
| At December 31, 2009 | 40,067 | 19,358 | 10,142 | 4,918 | 4,292 | — | 78,777 |
| At December 31, 2010 | 37,819 | 21,139 | 8,008 | 9,923 | 5,807 | 3,581 | 86,277 |
| At March 31, 2011 | 37,257 | 21,764 | 7,266 | 11,796 | 6,513 | 8,719 | 93,315 |

**A. FINANCIAL INFORMATION—(continued)**

**Notes to the Financial Information—(continued)**

**15. PROPERTY, PLANT AND EQUIPMENT—(continued)**

**The Group—(continued)**

The above items of property, plant and equipment other than construction in progress are depreciated, after considering their residual values, on a straight-line basis at the following rates per annum:

| | |
|---|---|
| Buildings | 4.5% |
| Machinery | 9% |
| Fixtures and equipment | 18% |
| Motor vehicles | 18% |
| Leasehold improvements | 18% or over the term of the lease, whichever is shorter. |

**16. PREPAID LEASE PAYMENTS**

**The Group**

| | As at December 31, | | | As at March 31, |
|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2011 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **Cost** | | | | |
| At beginning and end of the year/period | 21,037 | 21,037 | 21,037 | 21,037 |
| **Accumulated amortization** | | | | |
| At beginning of the year/period | 3,593 | 4,142 | 4,526 | 4,910 |
| Amortization | 549 | 384 | 384 | 96 |
| At end of the year/period | 4,142 | 4,526 | 4,910 | 5,006 |
| **Carrying amount** | | | | |
| At end of the year/period | 16,895 | 16,511 | 16,127 | 16,031 |
| Analyzed for reporting purposes as: | | | | |
| Current asset (included in other receivables) (Note 24) | 441 | 441 | 441 | 441 |
| Non-current asset | 16,454 | 16,070 | 15,686 | 15,590 |
| | 16,895 | 16,511 | 16,127 | 16,031 |

The amount represents the lease premium payment for land use rights which is situated in the PRC. It is amortized over 50 years and the amortization period is in line with the business licence of the subsidiaries and the period of land use rights.

All of the Group's land use right have been pledged as at December 31, 2010 and March 31, 2011 to secure the banking facilities granted to the Group. There is no pledge of the Group's land use right at December 31, 2008 and December 31, 2009.

## A. FINANCIAL INFORMATION—(continued)

**Notes to the Financial Information—(continued)**

### 17. INVESTMENT PROPERTIES

**The Group**

| | As at December 31, | | | As at March 31, |
|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2011 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **At Fair value** | | | | |
| At beginning of the year/period | — | — | 44,640 | 46,069 |
| Acquired on an acquisition of a subsidiary (Note 34) | — | 43,185 | — | — |
| Net increase in fair value recognized in profit or loss | — | 1,455 | 1,429 | — |
| At end of the year/period | — | 44,640 | 46,069 | 46,069 |

At December 31, 2009, December 31, 2010 and March 31, 2011, the Group's investment properties are held under medium-term leases in the PRC.

The fair value of the Group's investment properties at December 31, 2009 have been arrived at on the estimation of the management of the Group, by reference to a valuation carried out on October 22, 2009 by Beijing Zhongzheng Appraisal Co., Ltd. Jiangsu Branch (北京中證資產評估有限公司江蘇分公司, "Beijing Zhongzheng"), whose address is Room 1521-1523, Fuxin Building, 359 Hongwu Road, Nanjing, China. In the opinion of the directors of the Company, the fair value of the properties at December 31, 2009 is not significantly different from that at October 22, 2009, since there is no significant change of the fair value of similar properties in the relevant locations during the interval period.

The fair value of the Group's investment properties at December 31, 2010 and March 31, 2011 have been arrived at on the basis of a valuation carried out on that date by DTZ Debenham Tie Leung Limited ("DTZ"), whose address is 16/F, Jardine House, 1 Connaught Place, Central, Hong Kong.

Both Beijing Zhongzheng and DTZ are independent qualified professional valuers not connected to the Group. The valuations were arrived at using direct comparison method by reference to market conditions existing at respective valuation dates.

All of the Group's property interests held to earn rentals are measured using the fair value model and are classified and accounted for as investment properties.

All of the Group's investment properties have been pledged as at December 31, 2010 and March 31, 2011 to secure banking facilities granted to the Group. There is no pledge of the Group's investment properties at December 31, 2009.

## A. FINANCIAL INFORMATION—(continued)

**Notes to the Financial Information—(continued)**

### 18. GOODWILL

**The Group**

| | As at December 31, | | | As at March 31, |
|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2011 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **Amount** | | | | |
| At beginning of the year/period | 6,000 | 6,000 | 6,000 | — |
| Derecognized on disposal of a subsidiary (Note 35) | — | — | (6,000) | — |
| At end of the year/period | 6,000 | 6,000 | — | — |
| **Impairment** | | | | |
| At beginning of the year/period | (1,500) | (4,000) | (6,000) | — |
| Impairment losses recognized in the year/period | (2,500) | (2,000) | — | — |
| Derecognized on disposal of a subsidiary (Note 35) | — | — | 6,000 | — |
| At end of the year/period | (4,000) | (6,000) | — | — |
| **Carrying amount** | | | | |
| At end of the year/period | 2,000 | — | — | — |

Goodwill on consolidation arose from the acquisition of Jiangsu Unity in 2004. Goodwill is allocated to the cash generating unit ("CGU") that are expected to benefit from that business combination.

The Group tests goodwill annually for impairment or more frequently if there are indicators that goodwill might be impaired.

The recoverable amount of the CGU is determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rate, expected changes to selling prices and direct costs during the period. Management estimates the discount rate using a pre-tax rate that reflects current market assessment of the time value of money and the risks specific to the CGU.

In 2008 and 2009, the Group prepared cash flow forecasts derived from the most recent financial budgets approved by management based on the remaining life of the franchise licenses applicable to the CGU ranging from 2 to 3 years using a discount rate of 10.0% and no growth.

This review led to the recognition of an impairment loss of RMB2,500,000 and RMB2,000,000 for the year ended December 31, 2008 and 2009 respectively.

## A. FINANCIAL INFORMATION—(continued)

### Notes to the Financial Information—(continued)

### 19. INTANGIBLE ASSETS

### The Group

| | Software | Franchise fee | Total |
|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 |
| Cost | | | |
| At January 1, 2008 | 894 | 2,653 | 3,547 |
| Additions | 926 | 135 | 1,061 |
| At December 31, 2008 | 1,820 | 2,788 | 4,608 |
| Additions | 887 | — | 887 |
| At December 31, 2009 | 2,707 | 2,788 | 5,495 |
| Additions | 407 | — | 407 |
| Transfer out on disposal of a subsidiary (Note 35) | (230) | (2,788) | (3,018) |
| At December 31, 2010 | 2,884 | — | 2,884 |
| Additions | 59 | — | 59 |
| At March 31, 2011 | 2,943 | — | 2,943 |
| Amortization | | | |
| At January 1, 2008 | 242 | 2,570 | 2,812 |
| Charge for the year | 319 | 104 | 423 |
| At December 31, 2008 | 561 | 2,674 | 3,235 |
| Charge for the year | 276 | 114 | 390 |
| At December 31, 2009 | 837 | 2,788 | 3,625 |
| Charge for the year | 355 | — | 355 |
| Transfer out on disposal of a subsidiary (Note 35) | (122) | (2,788) | (2,910) |
| At December 31, 2010 | 1,070 | — | 1,070 |
| Charge for the period | 91 | — | 91 |
| At March 31, 2011 | 1,161 | — | 1,161 |
| Carrying values | | | |
| At December 31, 2008 | 1,259 | 114 | 1,373 |
| At December 31, 2009 | 1,870 | — | 1,870 |
| At December 31, 2010 | 1,814 | — | 1,814 |
| At March 31, 2011 | 1,782 | — | 1,782 |

The following useful lives are used in the calculation of amortization:

| | |
|---|---|
| Software | 5 years |
| Franchise fees | respective franchise period from 2 to 3 years |

## A. FINANCIAL INFORMATION—(continued)

**Notes to the Financial Information—(continued)**

### 20. INTEREST IN JOINT VENTURES

**The Group**

As at December 31, 2008, 2009, 2010 and March 31, 2011, the Group had interest in the following jointly controlled entities:

| Name of company | Place and date of Incorporation / establishment | Principal Place of operation | Proportion of nominal value of issued capital and voting power held by the Group | | | | Principal activities |
|---|---|---|---|---|---|---|---|
| | | | As at December 31, | | | At March 31, | |
| | | | 2008 | 2009 | 2010 | 2011 | |
| B&H Footwear Company Limited 美康鞋業有限公司 ("Hong Kong B&H") | Hong Kong May 29, 2007 | Hong Kong | 49% | 49% | 49% | 49% | Investment holding |
| **Held by Hong Kong B&H** | | | | | | | |
| Dongguan B&H Footwear Industries Limited 東莞美康鞋業有限公司 ("Dongguan B&H") | PRC August 23, 2007 | PRC | 49% | 49% | 49% | 49% | Manufacture and retail of branded fashion footwear |

| | As at December 31, | | | As at March 31, |
|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2011 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Cost of unlisted investments in jointly controlled entity | 19,916 | 19,916 | 23,500 | 23,500 |
| Share of post-acquisition losses and other comprehensive income | (7,145) | (14,196) | (17,696) | (18,011) |
| | 12,771 | 5,720 | 5,804 | 5,489 |

The summarized consolidated financial information in respect of the Group's jointly controlled entities which are accounted for using the equity method is set out below:

| | As at December 31, | | | As at March 31, |
|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2011 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Assets | 35,326 | 23,278 | 20,912 | 25,144 |
| Liabilities | 9,263 | 11,605 | 9,067 | 13,942 |
| Net assets | 26,063 | 11,673 | 11,845 | 11,202 |
| Group's share of net assets of jointly controlled entities | 12,771 | 5,720 | 5,804 | 5,489 |

| | Year ended December 31, | | | Three months ended March 31, | |
|---|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2010 | 2011 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 (unaudited) | RMB'000 |
| Revenue | 43,188 | 35,143 | 38,793 | 6,560 | 12,197 |
| Loss for the year/period | 12,749 | 14,390 | 7,143 | 3,244 | 643 |
| Group's share of loss of jointly controlled entities, after elimination of unrealized profits | 10,560 | 4,410 | 2,996 | 1,402 | 436 |

## A. FINANCIAL INFORMATION—(continued)

**Notes to the Financial Information—(continued)**

### 21. DEFERRED TAXATION

**The Group**

The following are the deferred tax balances recognized by the Group and movements thereon during the Track Record Period:

| | Write down of inventories | Tax losses | Deferred revenue | Withholding tax on undistributed profits | Revaluation of investment properties | Total |
|---|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| At January 1, 2008 | 3,686 | — | — | — | — | 3,686 |
| Credit (charge) to profit or loss | 1,808 | — | — | (1,652) | — | 156 |
| At December 31, 2008 | 5,494 | — | — | (1,652) | — | 3,842 |
| Acquired on an acquisition of a subsidiary (Note 34) | — | — | — | — | (2,338) | (2,338) |
| Credit (charge) to profit or loss | 1,196 | 68 | — | (1,369) | (364) | (469) |
| At December 31, 2009 | 6,690 | 68 | — | (3,021) | (2,702) | 1,035 |
| Credit (charge) to profit or loss | 1,019 | 278 | 2,145 | (979) | (357) | 2,106 |
| At December 31, 2010 | 7,709 | 346 | 2,145 | (4,000) | (3,059) | 3,141 |
| Credit (charge) to profit or loss | 571 | 653 | 540 | (670) | — | 1,094 |
| At March 31, 2011 | 8,280 | 999 | 2,685 | (4,670) | (3,059) | 4,235 |

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

| | As at December 31, | | | As at March 31, |
|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2011 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Deferred tax assets | 5,494 | 6,758 | 10,200 | 11,964 |
| Deferred tax liabilities | (1,652) | (5,723) | (7,059) | (7,729) |
| | 3,842 | 1,035 | 3,141 | 4,235 |

Under the New Tax Law of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from January 1, 2008 onwards. The deferred tax liabilities related to such unremitted PRC income.

The deferred tax balance has reflected the tax rates that are expected to apply in the respective periods when the asset is realized or the liability is settled.

The Group has unused tax losses of RMB1,054,000, RMB12,059,000, RMB1,384,000 and RMB3,996,000 as at December 31, 2008, 2009, 2010 and March 31, 2011 respectively. Deferred tax assets have been recognized in respect of RMB nil, RMB272,000, RMB1,384,000 and RMB 3,996,000 of such losses as at December 31, 2008, December 31, 2009, December 31, 2010 and March 31, 2011 respectively. No deferred tax assets have been recognized in respect of the remaining RMB1,054,000 and RMB11,787,000 as at December 31, 2008 and 2009 respectively generated from discontinued operations.

## A. FINANCIAL INFORMATION—(continued)

### Notes to the Financial Information—(continued)

### 22. INVENTORIES

**The Group**

| | As at December 31, | | | As at March 31, |
|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2011 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Raw materials | 18,567 | 19,919 | 27,589 | 38,320 |
| Work in progress | 10,782 | 6,447 | 9,575 | 7,298 |
| Finished goods | 337,458 | 276,511 | 403,938 | 347,889 |
| | 366,807 | 302,877 | 441,102 | 393,507 |
| Allowance for inventories obsolescence | (23,002) | (32,587) | (30,839) | (33,121) |
| | 343,805 | 270,290 | 410,263 | 360,386 |

### 23. TRADE RECEIVABLES

**The Group**

| | As at December 31, | | | As at March 31, |
|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2011 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Amounts receivable from sales of goods | 132,925 | 175,136 | 179,930 | 158,473 |

The Group allows an average credit period of 60 days for collection of the trade receivables. The following is an aged analysis of trade receivables, presented based on the invoice date at the end of the reporting period.

| | As at December 31, | | | As at March 31, |
|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2011 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| 0 to 60 days | 125,107 | 167,353 | 177,688 | 153,084 |
| 61 to 180 days | 5,868 | 7,180 | 1,191 | 5,348 |
| 181 days to 1 year | 1,008 | 293 | 464 | 41 |
| Over 1 year | 942 | 310 | 587 | — |
| | 132,925 | 175,136 | 179,930 | 158,473 |

At December 31, 2008, 2009, 2010 and March 31, 2011, 94%, 96%, 99% and 97% of the trade receivables that are neither past due nor impaired. No impairment loss is provided for these receivables because they are within the credit period for collection and the management considers the default rate is low for such receivables based on historical information and experience.

## A. FINANCIAL INFORMATION—(continued)

### Notes to the Financial Information—(continued)

### 23. TRADE RECEIVABLES—(continued)

### The Group—(continued)

Included in the Group's trade receivables are debtors with a carrying amount of RMB7,818,000, RMB7,783,000, RMB2,242,000 and RMB5,389,000 as at December 31, 2008, 2009, 2010 and March 31, 2011 respectively, which were past due for which the Group has not provided for impairment loss as there has not been a significant change in good credit quality and the amounts are still considered recoverable.

**Ageing of trade receivables which are past due but not impaired**

| | As at December 31, | | | As at March 31, |
|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2011 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| 61 to 180 days | 5,868 | 7,180 | 1,191 | 5,348 |
| 181 days to 1 year | 1,008 | 293 | 464 | 41 |
| Over 1 year | 942 | 310 | 587 | — |
| | 7,818 | 7,783 | 2,242 | 5,389 |

The Group does not hold any collateral over these balances. In determining the recoverability of the trade receivables, the Group monitors any change in the credit quality of the trade receivables since the credit was granted and up to the reporting date. After reassessment, the directors of the Company believe that no allowance is required.

The Group's trade receivables that were denominated in USD, foreign currency of the relevant group entities, were re-translated into RMB and stated for reporting purposes as:

| | As at December 31, | | | As at March 31, |
|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2011 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Trade receivables denominated in USD | 38,391 | 33,286 | 18,646 | 14,734 |

## A. FINANCIAL INFORMATION—(continued)

### Notes to the Financial Information—(continued)

### 24. OTHER RECEIVABLES AND PREPAYMENTS

**The Group**

| | As at December 31, | | | As at March 31, |
|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2011 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Advance payments to suppliers | 16,161 | 4,816 | 7,189 | 11,320 |
| Value-added tax receivable | 2,742 | 7,259 | 2,839 | 6,747 |
| Prepayments | 6,511 | 15,494 | 22,500 | 18,254 |
| Prepayments for listing related expense | — | — | 3,455 | 2,116 |
| Prepaid lease payments (Note 16) | 441 | 441 | 441 | 441 |
| Due from joint ventures | 33 | 82 | 189 | — |
| Others | 1,174 | 1,587 | 1,747 | 2,659 |
| Total | 27,062 | 29,679 | 38,360 | 41,537 |

**The Company**

| | As at December 31, | | | As at March 31, |
|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2011 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Dividend receivable from subsidiaries | 148,803 | 148,803 | 80,000 | 80,000 |
| Amounts due from subsidiaries | 75,419 | 111,917 | 199,101 | 135,733 |
| Prepayments for listing related expense | — | — | 3,455 | 2,116 |
| Total | 224,222 | 260,720 | 282,556 | 217,849 |
| Analyzed for reporting purposes as: | | | | |
| Current assets | 148,803 | 214,096 | 132,941 | 68,234 |
| Non-current assets | 75,419 | 46,624 | 149,615 | 149,615 |
| | 224,222 | 260,720 | 282,556 | 217,849 |

The dividend receivable from subsidiaries and amounts due from subsidiaries are unsecured, interest free, and repayable on demand.

### 25. PLEDGED BANK DEPOSITS

**The Group**

Pledged bank deposits of the Group represents deposits pledged to banks as securities of notes payables and carries interest rate as follows:

| | As at December 31, | | | As at March 31, |
|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2011 |
| Interest rate per annum | 1.98-3.78% | 1.71-1.98% | 1.91-2.20% | 2.20%-2.80% |

## A. FINANCIAL INFORMATION—(continued)

**Notes to the Financial Information—(continued)**

### 26. BANK BALANCES AND CASH

**The Group**

Bank balances and cash comprise cash held by the Group and the Company and short-term bank deposits with an original maturity of three months or less which carried interest at market rates of 0.36% per annum, 0.36% per annum, 0.36% per annum and 0.40% per annum, at December 31, 2008, 2009 and 2010 and March 31, 2011, respectively.

The Group's bank balances and cash that were denominated in currencies other than the functional currency of the relevant group entities are set out below:

| | As at December 31, | | | As at March 31, |
|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2011 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Denominated in: | | | | |
| USD | 44,085 | 8,032 | 15,814 | 3,608 |
| SGD | 245 | 275 | 2,769 | 2,511 |
| HKD | 36 | 182 | 14,165 | 4,330 |

### 27. TRADE PAYABLES

**The Group**

| | As at December 31, | | | As at March 31, |
|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2011 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Amount payable from purchases of goods from third parties | 61,532 | 99,566 | 158,904 | 83,034 |
| Notes payable | 24,793 | 29,728 | 33,784 | 31,783 |
| Amounts due to joint ventures | 1,630 | 2,801 | 4,473 | 4,368 |
| Total | 87,955 | 132,095 | 197,161 | 119,185 |

Trade payables comprise amounts outstanding for trade purchases. Payment terms with suppliers are mainly on credit within 90 days from the invoice date. The aging of trade payables, based on the invoice date at the end of the reporting period is as follows:

| | As at December 31, | | | As at March 31, |
|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2011 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **Age** | | | | |
| 0 to 90 days | 75,487 | 118,964 | 181,846 | 105,792 |
| 91 to 180 days | 11,963 | 12,620 | 15,040 | 13,380 |
| 181 to 1 year | 226 | 183 | 105 | 11 |
| Over 1 year | 279 | 328 | 170 | 2 |
| | 87,955 | 132,095 | 197,161 | 119,185 |

## A. FINANCIAL INFORMATION—(continued)

**Notes to the Financial Information—(continued)**

### 27. TRADE PAYABLES—(continued)

**The Group—(continued)**

The Group's trade payables that were denominated in USD, foreign currency of the relevant group entities, were re-translated into RMB and stated for reporting purposes as:

| | As at December 31, | | | As at March 31, |
|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2011 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Trade payables denominated in USD | 7,366 | 875 | — | — |

### 28. OTHER PAYABLES

**The Group**

| | As at December 31, | | | As at March 31, |
|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2011 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Accruals | 3,610 | 6,240 | 6,968 | 6,121 |
| Advance from customers | 1,626 | 9,339 | 8,851 | 6,578 |
| Payroll payable | 26,339 | 27,791 | 37,063 | 19,240 |
| Other tax liabilities | 11,641 | 22,257 | 16,408 | 22,994 |
| Deposit from wholesale customers | 17,173 | 16,910 | 11,622 | 10,736 |
| Payable for decoration | 1,361 | 5,426 | 7,709 | 6,724 |
| Payable for construction in progress | — | — | — | 3,836 |
| Others | 4,755 | 5,463 | 6,850 | 6,424 |
| | 66,505 | 93,426 | 95,471 | 82,653 |

**The Company**

| | As at December 31, | | | As at March 31, |
|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2011 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Amounts due to subsidiaries | 14,243 | 26,584 | 61,236 | — |
| Payroll payable | 14,908 | 13,000 | 18,049 | 5,607 |
| Others | 37 | — | 117 | 196 |
| | 29,188 | 39,584 | 79,402 | 5,803 |

## A. FINANCIAL INFORMATION—(continued)

**Notes to the Financial Information—(continued)**

### 29. DEFERRED REVENUE

**The Group**

| | As at December 31, | | | As at March 31, |
|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2011 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Deferred revenue arising from customer loyalty program | — | — | 8,581 | 10,741 |
| Analyzed for reporting purposes as: | | | | |
| Current liabilities | — | — | 8,581 | 10,741 |
| Non-current liabilities | — | — | — | — |
| | — | — | 8,581 | 10,741 |

At December 31, 2010 and March 31, 2011, the amount represents deferred revenue arising in respect of the Group's customer loyalty program recognized in accordance with IFRIC-Int 13 "Customer Loyalty Programmes".

### 30. SHORT-TERM BANK LOANS

**The Group and the Company**

| | As at December 31, | | | As at March 31, |
|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2011 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Secured | — | — | — | 64,260 |
| Unsecured | 41,008 | 40,893 | — | — |
| | 41,008 | 40,893 | — | 64,260 |

At December 31, 2008, the bank loans are unsecured, bear fixed interest rates of 5.85% per annum and repayable within twelve months from the end of the reporting period.

At December 31, 2009, the bank loans are unsecured, bear fixed interest rates of 2.50% per annum and repayable within twelve months from the end of the reporting period.

At March 31, 2011, bank loans amounting to RMB 64,260,000 are secured by way of fixed charge, assignments and floating charge on the assets of the Group and bear variable interest at 4.259% per annum. Also these bank loans are guranteed by certain directors of the Company.

The above balances that are not denominated in the functional currencies of the respective group entities are as follows:

| | As at December 31, | | | As at March 31, |
|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2011 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| USD | 41,008 | 40,893 | — | 64,260 |

## A. FINANCIAL INFORMATION—(continued)

**Notes to the Financial Information—(continued)**

### 30. SHORT-TERM BANK LOANS—(continued)

**The Group and the Company—(continued)**

As at the end of each reporting period, the Group has the following undrawn borrowing facilities:

| | As at December 31, | | | As at March 31, |
|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2011 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Floating rate | | | | |
| -expiring within one year | — | — | — | 1,304 |
| -expiring beyond one year | 27,338 | 27,262 | 100,000 | 100,000 |
| | 27,338 | 27,262 | 100,000 | 101,304 |

### 31. SHARE CAPITAL

| | Number of ordinary shares of USD0.015 each | Amount |
|---|---|---|
| | | RMB'000 |
| Authorized | | |
| At January 1, 2008, December 31, 2008, December 31, 2009, December 31, 2010 and March 31, 2011 | 800,000,000 | 99,000 |
| Issued and paid-up | | |
| At January 1, 2008, December 31, 2008, December 31, 2009, December 31, 2010 and March 31, 2011 | 396,868,200 | 49,271 |

Fully paid ordinary shares carry one vote per share and carry a right to dividends.

### 32. PRC STATUTORY RESERVE

Pursuant to the relevant laws and regulations in the PRC applicable to foreign investment enterprises and the Articles of Association of the PRC subsidiaries, the PRC subsidiaries are required to maintain a statutory surplus reserve fund. Appropriations to this fund are made out of net profit after taxation as reported in the PRC statutory financial statements of the subsidiaries (the "PRC Accounting Profit").

Nanjing Mayflower, Dongguan Mayflower, Nanjing Soft, Nanjing Ruihe and Jiangsu Unity are required to transfer 10% of their PRC Accounting Profit to the statutory surplus reserve fund in each profit making year until the balances reach 50% of the registered capital of each of the company respectively. The statutory surplus reserve fund may be used to make up prior year losses incurred and, with approval from relevant government authority, to increase capital. Suining Shufute is not required to maintain this statutory surplus reserve fund, according to the relevant laws and regulations in the PRC applicable to Sino-foreign joint investment enterprises.

### 33. SHARE-BASED PAYMENTS

Pursuant to a share option scheme of the Company (the "Hongguo Share Option Scheme") approved by the Board of Directors of the Company in June 2008, the Company may grant options to eligible employees and directors of the Company and its subsidiaries to subscribe for shares in the

**A. FINANCIAL INFORMATION—(continued)**

**Notes to the Financial Information—(continued)**

**33. SHARE-BASED PAYMENTS—(continued)**

Company for a consideration of SGD 1 for each lot of share options granted. The share options granted shall be exercisable, in whole or in part, after the third anniversary of the date of grant until the fifth anniversary and tenth anniversary of such date of grant for the group of non-executive directors and the group comprising executive directors, management staffs and department heads (this group is collectively referred to as the "Group Executives") respectively.

The exercise price is determined by the directors of the Company based on the average closing price of the Company's shares previously listed on the SGX-ST for the five trading days immediately preceding the date of grant.

The Company granted options to the non-executive directors and the Group Executives on June 23, 2008 (the "2008 Option") and on August 18, 2009 (the "2009 Option") respectively.

Details of the 2008 Option and 2009 Option granted under the Hongguo Share Option Scheme to the non-executive directors and the Group Executives of the Company and its subsidiaries are as follows:

| Option type | Date of grant | Exercise period | Exercise price | Fair value of option at grant date |
|---|---|---|---|---|
| | | | SGD | SGD |
| 2008 Option | | | | |
| Non-executive directors | 06.23.2008 | 06.23.2011 ~ 06.22.2013 | 0.453 | 0.19 |
| Group Executives | 06.23.2008 | 06.23.2011 ~ 06.22.2018 | 0.453 | 0.24 |
| 2009 Option | | | | |
| Non-executive directors | 08.18.2009 | 08.18.2012 ~ 08.17.2014 | 0.272 | 0.12 |
| Group Executives | 08.18.2009 | 08.18.2012 ~ 08.17.2019 | 0.272 | 0.12 |

Pursuant to the Privatization Offer, the Compulsory Acquisition and the Delisting, the 2008 Option, 2009 Option and together with the Hongguo Share Option Scheme were cancelled in 2010. The cancellation of the Hongguo Share Option Scheme was accounted for as an acceleration of vesting, and the amount that otherwise would have been recognized over the remainder of the vesting period has been recognized in 2010.

The following table discloses movements of the Company's share options held by the non-executive directors and the Group Executives of the Company and its subsidiaries during the Track Record Period.

| | Number of share options | | | | | |
|---|---|---|---|---|---|---|
| 2008 Option granted to | Outstanding at 1.1.2008 | Granted during 2008 | Outstanding at 12.31.2008 & 12.31.2009 | Cancelled during 2010 | Outstanding at 12.31.2010 & 03.31.2011 | Exercisable at 12.31.2008, 12.31.2009, 12.31.2010, & 03.31.2011 |
| Non-executive directors | — | 300,000 | 300,000 | (300,000) | — | — |
| Group Executives | — | 5,662,500 | 5,662,500 | (5,662,500) | — | — |
| | — | 5,962,500 | 5,962,500 | (5,962,500) | — | — |

## A. FINANCIAL INFORMATION—(continued)

### Notes to the Financial Information—(continued)

### 33. SHARE-BASED PAYMENTS—(continued)

| 2009 Option granted to | Number of share options: Outstanding at 1.1.2008 & 12.31.2008 | Granted during 2009 | Outstanding at 12.31.2009 | Cancelled during 2010 | Outstanding at 12.31.2010 & 03.31.2011 | Exercisable at 12.31.2008, 12.31.2009, 12.31.2010, &03.31.2011 |
|---|---|---|---|---|---|---|
| Non-executive directors | — | 300,000 | 300,000 | (300,000) | — | — |
| Group Executives | — | 5,767,000 | 5,767,000 | (5,767,000) | — | — |
| | — | 6,067,000 | 6,067,000 | (6,067,000) | — | — |

These fair values of the share options were determined using the Black-Scholes pricing model. Where relevant, the expected life used in the model has been adjusted based on management's best estimate for the effects of non-transferability, exercise restrictions and behavioral considerations. Expected volatility was based on the historical share price volatility over the previous 4 years.

The variables and assumptions used in computing the fair value of the share options are based on the director's best estimate. The value of an option varies with different variables of certain subjective assumptions.

The inputs into the model were as follows:

| | Grant date share price | Exercise price | Expected volatility | Expected dividend yield | Risk-free rate | Expected life |
|---|---|---|---|---|---|---|
| | SGD | SGD | | | | Years |
| **2008 Option** | | | | | | |
| Non-executive directors | 0.46 | 0.453 | 53.0% | 1.97% | 2.26% | 5 |
| Group Executives | 0.46 | 0.453 | 53.0% | 1.97% | 3.14% | 10 |
| **2009 Option** | | | | | | |
| Non-executive directors | 0.28 | 0.272 | 69.0% | 2.45% | 3.13% | 3 |
| Group Executives | 0.28 | 0.272 | 69.0% | 2.45% | 3.13% | 3 |

The estimated fair value was RMB7,129,000 (equivalent to SGD 1,416,000) and RMB3,447,000 (equivalent to SGD731,000) for 2008 Option and 2009 Option respectively.

The Group recognized a share option expense of RMB976,000, RMB2,098,000, RMB7,502,000, RMB7,502,000 (unaudited) and nil during each of the three years ended December 31, 2010 and each of the three months ended March 31, 2010 and 2011 respectively.

### 34. ACQUISITION OF A SUBSIDIARY

On October 26, 2009, the Group acquired 100% of equity interest in Nanjing Ruihe for a cash consideration of RMB27,000,000 from an independent third party. On the date of acquisition, Nanjing Ruihe owned vacant properties and has not commenced operations. The properties are held to earn rentals.

In the opinion of the directors of the Company, the above acquisition did not constitute a business combination in accordance with IFRS 3 "Business Combination" and as such, the acquisition has been accounted for as an acquisition of asset.

## A. FINANCIAL INFORMATION—(continued)

**Notes to the Financial Information—(continued)**

### 34. ACQUISITION OF A SUBSIDIARY—(continued)

Assets acquired and liabilities assumed in the transaction are as follows:

| | RMB'000 |
|---|---|
| Cash and cash equivalents | 96 |
| Investment properties | 43,185 |
| Trade and other payables | (13,943) |
| Deferred tax liabilities | (2,338) |
| Total consideration paid | 27,000 |
| Satisfied by: | |
| Cash consideration paid | 27,000 |
| Net cash outflow on acquisition of Nanjing Ruihe: | |
| Cash consideration paid | 27,000 |
| Less: Cash and cash equivalents balances acquired | (96) |
| | 26,904 |

### 35. DISPOSAL OF A SUBSIDIARY

Pursuant to a transfer agreement dated December 8, 2010, the Group disposed of its entire equity interests in Jiangsu Unity, which carried out all of the Group's retail and wholesale of international and domestic branded apparel operations, to 鴻國實業集團有限公司 Hongguo Industry Group Corporation ("Hongguo Industry") for a cash consideration of RMB34,550,000. Hongguo Industry is an entity in which certain directors of the Company have beneficial interests.

Analysis of assets and liabilities over which control was lost were as follows:

| | As at December 8, 2010 RMB'000 |
|---|---|
| **Net assets disposed of:** | |
| Cash and cash equivalents | 131 |
| Trade and other receivables | 21,935 |
| Inventories | 13,523 |
| Property, plant and equipment | 524 |
| Intangible assets | 108 |
| Trade and other payables | (1,665) |
| Net assets disposed of | 34,556 |
| Loss on disposal recognized and charged to profit or loss | (6) |
| Total consideration | 34,550 |
| Satisfied by: | |
| Cash consideration | 34,550 |
| Net cash inflow arising on disposal: | |
| Cash consideration | 34,550 |
| Less: Bank balances and cash disposed of | (131) |
| | 34,419 |

## A. FINANCIAL INFORMATION—(continued)

**Notes to the Financial Information—(continued)**

### 35. DISPOSAL OF A SUBSIDIARY—(continued)

The impact of Jiangsu Unity on the Group's results and cash flows in the Track Record Period is disclosed in Note 11.

### 36. OPERATING LEASES

**The Group**

| | Year ended December 31, | | | Three months ended March 31, | |
|---|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2010 | 2011 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 (unaudited) | RMB'000 |
| Minimum lease payments paid under operating leases during the year/period | 9,979 | 15,033 | 18,105 | 6,878 | 7,429 |

At the end of each reporting period, the Group has outstanding commitment in respect of non-cancellable operating leases which fall due as follows:

| | As at December 31, | | | As at March 31, |
|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2011 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Within one year | 5,894 | 10,293 | 11,225 | 14,083 |
| In the second to fifth years inclusive | 20,728 | 21,570 | 34,138 | 34,161 |
| After five years | 22,134 | 17,893 | 61,963 | 60,780 |
| Total | 48,756 | 49,756 | 107,326 | 109,024 |

Operating lease payments represented rentals payable by the Group for its rental of factory spaces and retail outlets. Leases and rentals for the factory premises and retail outlets are negotiated and fixed for terms ranging from ten to twenty years and one to two years respectively.

### 37. CAPITAL COMMITMENTS

| | As at December 31, | | | As at March 31, |
|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2011 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements | — | — | 10,085 | 6,149 |

**A. FINANCIAL INFORMATION—(continued)**

**Notes to the Financial Information—(continued)**

## 38. RELATED PARTY TRANSACTIONS

**The Group**

(1) Related party transactions

During the Track Record Period, in addition to those disclosures in Notes 7, 11, 12, 20, 24, 27, 30, 33 and 35, the Group had the following related party transactions:

| | Year ended December 31, | | | Three months ended March 31, | |
|---|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2010 | 2011 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 (unaudited) | RMB'000 |
| Continuing related party transactions: | | | | | |
| Rental expense paid to Hongguo Industry | 900 | 500 | 900 | 225 | 225 |
| Purchase of goods from Dongguan B&H | 31,407 | 14,829 | 26,644 | 2,000 | 5,614 |
| Rental income charged to Dongguan B&H | 214 | 214 | 71 | 36 | — |

| | As at December 31, | | | As at March 31, |
|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2011 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Guarantee executed by certain directors of the Company to a bank for banking facilities granted to the Group | — | — | 100,000 | 165,564 |

(2) Compensation of key management personnel

The remuneration of directors, who are also the key management, are disclosed in Note 12.

## 39. PLEDGE OF ASSETS

**The Group**

At the end of each reporting period, the following assets were pledged to banks for banking facilities, including bank loans and notes payables.

| | As at December 31, | | | As at March 31, |
|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2011 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Bank deposits | 24,793 | 29,728 | 33,784 | 31,783 |
| Investment properties | — | — | 46,069 | 46,069 |
| Land use rights | — | — | 16,127 | 16,031 |
| | 24,793 | 29,728 | 95,980 | 93,883 |

## 40. RETIREMENT BENEFITS SCHEMES

Pursuant to the relevant regulations of the PRC government, the PRC subsidiaries have participated in a central pension scheme (the "Scheme") operated by local municipal government whereby the PRC subsidiaries are required to contribute a certain percentage of basic salaries of the

## A. FINANCIAL INFORMATION—(continued)

**Notes to the Financial Information—(continued)**

### 40. RETIREMENT BENEFITS SCHEMES—(continued)

employees to the Scheme to fund their retirement benefits. The local municipal government undertakes to assume the retirement benefit obligations of all existing and future retired employees of the PRC subsidiaries. The only obligation of the PRC subsidiaries with respect to the Scheme is to pay the ongoing required contributions under the Scheme mentioned above. Contributions under the Scheme are charged to profit or loss as incurred.

During the Track Record Period, the total amounts contributed by the Group to the Scheme and charged to profit or loss represent contribution payable to the Scheme by the Group at rates specified in the rules of the Scheme and are as follows:

| | Year ended December 31, | | | Three months ended March 31, | |
|---|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2010 | 2011 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 (unaudited) | RMB'000 |
| Amount contributed and charged to profit or loss . . . . . . . | 12,748 | 15,342 | 18,884 | 4,246 | 6,013 |

As at December 31, 2008, 2009, 2010 and March 31, 2011, there was no outstanding contributions payable to the Scheme.

### 41. INVESTMENTS IN SUBSIDIARIES

**The Company**

| | As at December 31, | | | As at March 31, |
|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2011 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Unquoted share capital/registered capital, at cost | | | | |
| At beginning and end of the year/period . . . . . . . . . . . . . . . . . . . . | * | * | * | * |
| Deemed investment in a subsidiary—waiver of balances due from a subsidiary (note (1)) | | | | |
| At beginning and end of the year/period . . . . . . . . . . . . . . . . . . . . | 1,566 | 1,566 | 1,566 | 1,566 |
| Deemed investments in subsidiaries—share options granted to the subsidiaries' employees (note (2)) | | | | |
| At beginning of the year/period . . . . . . . . . . . . . . . . . . . . . . . . . | — | 806 | 2,546 | 8,472 |
| Additions . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . | 806 | 1,740 | 6,525 | — |
| Transfer out on disposal of a subsidiary . . . . . . . . . . . . . . . . . . . | — | — | (599) | — |
| At end of the year/period . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . | 806 | 2,546 | 8,472 | 8,472 |
| | 2,372 | 4,112 | 10,038 | 10,038 |

* Amounts less than RMB1,000

Notes:

(1) The deemed investment in a subsidiary arose from a waiver of balances due from a subsidiary approved by the Board of Directors of the Company in 2007.

(2) The deemed investments in subsidiaries arose from the share options granted to the subsidiaries' employees by the Company. Detail of the share options granted is set out in Note 33.

## A. FINANCIAL INFORMATION—(continued)

**Notes to the Financial Information—(continued)**

### 42. RESERVES

**The Company**

| | Share premium | Share Option reserve | Accumulated profits | Total |
|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| At January 1, 2008 | 98,093 | — | 74,535 | 172,628 |
| Net profit and total comprehensive income for the year | — | — | 2,641 | 2,641 |
| Recognition of equity-settled share based payments (Note 33) | — | 976 | — | 976 |
| Dividend paid (Note 13) | — | — | (26,836) | (26,836) |
| At December 31, 2008 | 98,093 | 976 | 50,340 | 149,409 |
| Net loss and total comprehensive income for the year | — | — | (15,670) | (15,670) |
| Recognition of equity-settled share based payments (Note 33) | — | 2,098 | — | 2,098 |
| At December 31, 2009 | 98,093 | 3,074 | 34,670 | 135,837 |
| Net profit and total comprehensive income for the year | — | — | 225,214 | 225,214 |
| Recognition of equity-settled share based payments (Note 33) | — | 7,502 | — | 7,502 |
| Transfer on cancellation of equity-settled share based payments (Note 33) | — | (10,576) | 10,576 | — |
| Dividend paid (Note 13) | — | — | (191,575) | (191,575) |
| At December 31, 2010 | 98,093 | — | 78,885 | 176,978 |
| Net profit and total comprehensive income for the period | — | — | 4,363 | 4,363 |
| Dividend paid (Note 13) | — | — | (64,441) | (64,441) |
| At March 31, 2011 | 98,093 | — | 18,807 | 116,900 |

## B. DIRECTORS' REMUNERATION

Save as disclosed herein, no other remuneration has been paid or is payable to the Company's directors by the Company or any of its subsidiaries during the Track Record Period.

Under the arrangement currently in force, the aggregate amount of the directors' fees and other emoluments for the year ending December 31, 2011 is estimated to be approximately RMB19,919,000.

## C. EVENTS AFTER THE REPORTING PERIOD

Pursuant to the written resolutions passed on August 26, 2011, upon the satisfactions of certain conditions set out in Appendix VII entitled "Statutory and General Information—A. Further Information about Our Company and Its Subsidiaries—3. Resolutions in writing of all the Shareholders passed on August 26, 2011" to the Prospectus: (i) the authorized share capital of the Company was increased from USD12,000,000 to USD300,000,000 by the creation of an additional 19,200,000,000 shares of USD0.015 each; (ii) conditional on the share premium account of the Company being credited as a result of the issue of the shares by the Company pursuant to the global offering of the shares of the Company as contained in the Prospectus, the sum of USD19,546,977 standing to the credit of the share premium account of the Company will be capitalized and applied in paying up in full at par 1,303,131,800 shares of USD0.015 each, allotted and issued to the shareholders whose names appearing on the register of members of the Company at the close of business on August 26,

## C. EVENTS AFTER THE REPORTING PERIOD—(continued)

2011 in proportion to their then respective shareholdings in the Company; and (iii) the share option scheme of the Company (the "Share Option Scheme") will be adopted and the directors of the Company will be authorized to grant options to subscribe for shares of the Company thereunder and to allot, issue and deal with shares of the Company pursuant to the exercise of options granted under the Share Option Scheme and to take all such actions as may be necessary and/or desirable to implement and give effect to the Share Option Scheme. For further detail of the Share Option Scheme, please refer to Appendix VII entitled "Statutory and General Information—D. Other Information—1. Share Option Scheme" to the Prospectus.

## D. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to March 31, 2011.

Yours faithfully

**Deloitte Touche Tohmatsu**
*Certified Public Accountants*
Hong Kong