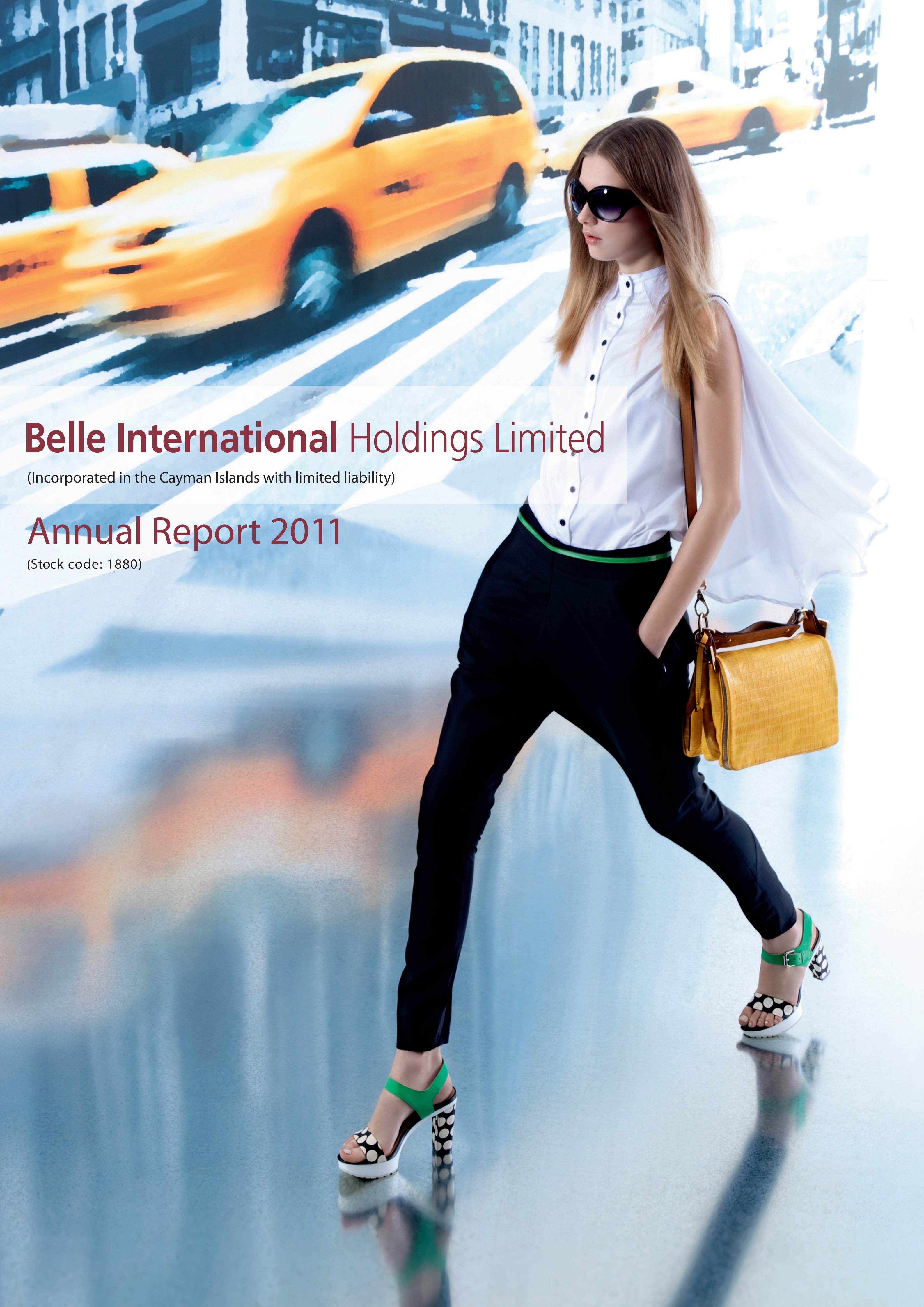

# Belle International Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

## Annual Report 2011

(Stock code: 1880)


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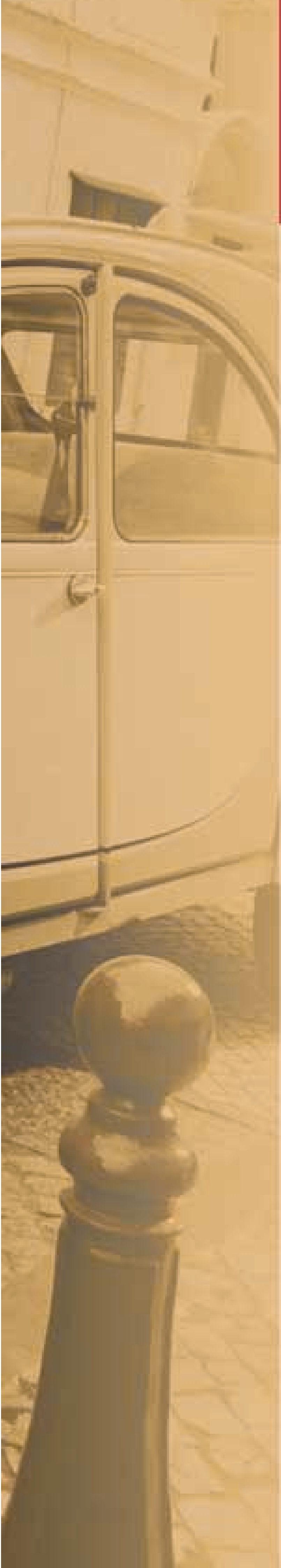

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# CORPORATE INFORMATION

## Board of Directors

### Executive Directors

Mr. Tang Yiu *(Chairman)*
Mr. Sheng Baijiao *(Chief Executive Officer)*
Mr. Tang King Loy
Mr. Sheng Fang

### Non-executive Directors

Mr. Gao Yu
Ms. Hu Xiaoling

### Independent Non-executive Directors

Mr. Ho Kwok Wah, George
Mr. Chan Yu Ling, Abraham
Dr. Xue Qiuzhi

## Authorized Representatives

Mr. Tang King Loy
Mr. Leung Kam Kwan

## Audit Committee

Mr. Ho Kwok Wah, George *(Chairman)*
Mr. Chan Yu Ling, Abraham
Dr. Xue Qiuzhi

## Remuneration Committee

Mr. Chan Yu Ling, Abraham *(Chairman)*
Mr. Sheng Baijiao
Dr. Xue Qiuzhi

## Nomination Committee

Dr. Xue Qiuzhi *(Chairman)*
Mr. Sheng Baijiao
Mr. Chan Yu Ling, Abraham

## Company Secretary

Mr. Leung Kam Kwan, FCPA

## Registered Office

Offshore Incorporation (Cayman) Limited
Scotia Centre, 4/F
P.O. Box 2804, George Town
Grand Cayman
Cayman Islands

## Head Office and Principal Place of Business in Hong Kong

9/F Belle Tower
918 Cheung Sha Wan Road
Cheung Sha Wan
Hong Kong

## Stock Code

1880

## Website

www.belleintl.com

## Legal Advisor

Cleary Gottlieb Steen & Hamilton
(Hong Kong)
39/F Bank of China Tower
1 Garden Road
Central
Hong Kong

## Auditor

PricewaterhouseCoopers
*Certified Public Accountants*
22/F Prince's Building
Central
Hong Kong

## Principal Share Registrar

Butterfield Fund Services (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 705
Grand Cayman KY1-1107
Cayman Islands

## Hong Kong Branch Share Registrar

Computershare Hong Kong Investor
Services Limited
17M Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

## Principal Bankers

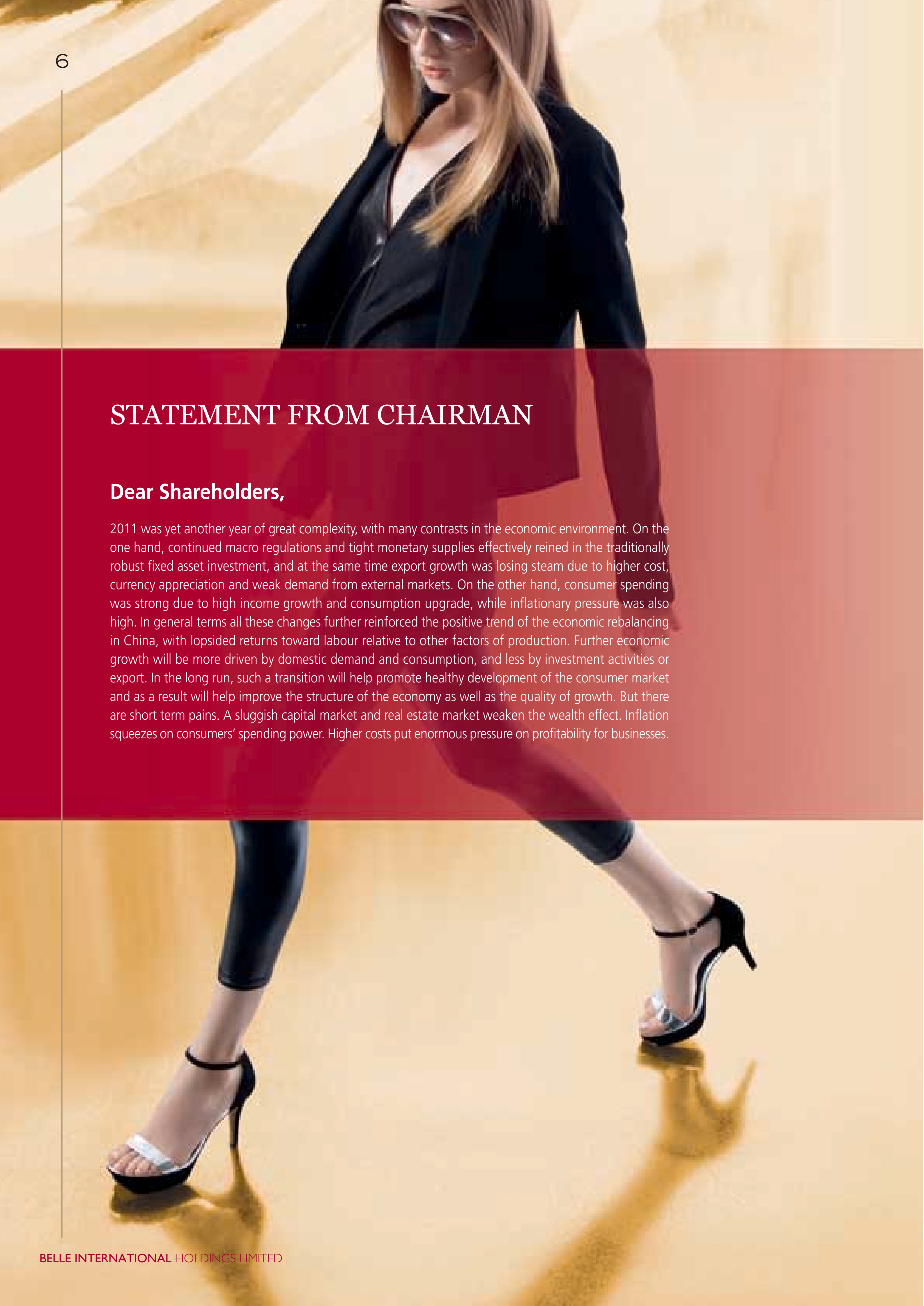
The Hongkong and Shanghai Banking
Corporation Limited
Hang Seng Bank Limited
DBS Bank (HK) Limited
China Merchants Bank Co., Ltd.
Bank of Communications Co., Ltd.

# FINANCIAL HIGHLIGHTS

| | | Year ended 31 December | |
|---|---|---|---|
| | | **2011** | 2010 |
| Revenue | RMB'000 | **28,944,704** | 23,705,890 |
| Operating profit | RMB'000 | **5,264,809** | 3,962,503 |
| Operating profit before other income and other gains *(note)* | RMB'000 | **5,150,674** | 3,902,744 |
| Income tax expense | RMB'000 | **1,232,087** | 700,576 |
| Profit attributable to the Company's equity holders | RMB'000 | **4,254,584** | 3,424,531 |
| Gross profit margin | % | **57.2** | 55.7 |
| Operating profit margin | % | **18.2** | 16.7 |
| Operating profit margin before other income and other gains | % | **17.8** | 16.5 |
| Profit margin attributable to the Company's equity holders | % | **14.7** | 14.4 |
| Earnings per share – basic | RMB cents | **50.44** | 40.60 |
| – diluted | RMB cents | **50.44** | 40.60 |
| Dividend per share – interim, paid | RMB cents | **7.00** | 5.00 |
| – interim special, paid | RMB cents | **—** | 10.00 |
| – final, proposed | RMB cents | **8.00** | 6.00 |
| – final special, proposed | RMB cents | **—** | 10.00 |

| | | As at 31 December | |
|---|---|---|---|
| | | **2011** | 2010 |
| Gearing ratio | % | **7.4** | 3.3 |
| Current ratio | times | **3.1** | 4.1 |
| Average trade receivables turnover period | days | **30.7** | 29.9 |
| Average trade payables turnover period | days | **34.7** | 31.7 |
| Average inventory turnover period | days | **167.6** | 152.6 |

*Note:* Other income consists mainly of government incentives and rental income.



# STATEMENT FROM CHAIRMAN

## Dear Shareholders,

2011 was yet another year of great complexity, with many contrasts in the economic environment. On the one hand, continued macro regulations and tight monetary supplies effectively reined in the traditionally robust fixed asset investment, and at the same time export growth was losing steam due to higher cost, currency appreciation and weak demand from external markets. On the other hand, consumer spending was strong due to high income growth and consumption upgrade, while inflationary pressure was also high. In general terms all these changes further reinforced the positive trend of the economic rebalancing in China, with lopsided returns toward labour relative to other factors of production. Further economic growth will be more driven by domestic demand and consumption, and less by investment activities or export. In the long run, such a transition will help promote healthy development of the consumer market and as a result will help improve the structure of the economy as well as the quality of growth. But there are short term pains. A sluggish capital market and real estate market weaken the wealth effect. Inflation squeezes on consumers' spending power. Higher costs put enormous pressure on profitability for businesses.

With the effort put in by all my colleagues the Group was able to overcome difficulties and seize opportunities in this complex environment and achieved good results. It was not an easy achievement for the Group to increase its profit attributable to equity holders of the Company by 24.2%, at a rate higher than revenue growth, against a significantly higher effective income tax rate in 2011. I would like to take this opportunity to thank all my colleagues for their hard work.

For the year ended 31 December 2011, the Group recorded a growth of 22.1% in revenue, 32.9% in operating profit, and 24.2% in profit attributable to equity holders of the Company as compared with the prior year. There were 1,958 net additions to company-managed footwear retail outlets and 1,025 net additions to company-managed sportswear retail outlets during the year in Mainland China. As at 31 December 2011 the total number of company-managed retail outlets reached 15,112, of which 14,950 outlets are located in Mainland China and 162 in Hong Kong and Macau.

2012 marks the 20th year since the Group was established. 8,000 representatives from all sales regions and all business units gathered in Shenzhen two weeks ago to celebrate our 20th birthday. I was greatly moved at the site of the ceremony by the happiness and enthusiasm exuding on so many faces. 20 years is a long time frame for one person or a generation. Within the past 20 years everybody at Belle worked very hard to create a dynamic organization and a vigorous corporate culture. For this business that we have created from scratch and have thrived through fierce competition, 20 years would be just a short startup period. I firmly believe that with all my colleagues continuing to carry on the passion from the startup days and working together to improve the managerial culture of the Group we will be able to create a solid business flourishing in the decades to come.

A note to mention here is that in the first half of 2011, I was hospitalized for a short period of time, during which I received heart-warming notes and letters from various colleagues, friends and investors. I would like to take this opportunity to thank all of them. The day-to-day management of the business has always been conducted by the CEO and the core management team, so there was no disruption as a result of my hospitalization. The board and the core management team have always been attentive to the succession planning of the Company, with concrete steps taken in the past few years to plan for the long run. The senior management team of the Group has been very stable. Most of them have more than ten years of industry experience. We have a deep bench that falls into varied age groups, thereby providing a solid foundation for long-term management succession in the future.

**Tang Yiu**
*Chairman*

20 March 2012

# STATEMENT FROM CEO

## Dear Shareholders,

On behalf of the board of directors and all employees of the Group, I am pleased to report the results for the full year of 2011 as follows:

### Results for the full year of 2011

The Group's overall revenue increased by 22.1% to RMB28,944.7 million in 2011, among which, revenue of the footwear business increased by 26.5% to RMB18,532.6 million as compared to last year. The sportswear business recorded a revenue of RMB10,412.1 million, up by 15.0% as compared to the correponding period last year. The footwear business contributed 64.0% of the total revenue of the Group, higher than the 61.8% level in 2010.

The margin of segment result of the footwear business improved significantly from last year. There are two major reasons. First, increases in average selling prices helped expand gross margins. Second, strong same store sales growth and a less promotional environment in 2011 resulted in lower selling and distribution expenses as a percentage of sales.

The margin of segment result of the sportswear business is largely unchanged from the prior year. Gross margins were higher due to an improved product mix. However, due to the overall weakness in the sportswear market same store sales growth was sluggish. At the same time, staff cost and other operational expenses kept rising, limiting margin expansion opportunities.

Total operating profit was RMB5,264.8 million, an increase of 32.9% from last year. The growth in operating profit was higher than revenue growth, mainly due to the significant margin improvement in the footwear business. Another contributing factor is the favorable shift in business mix: the more profitable footwear business growing faster than the sportswear business, taking up a larger share of the revenue base.

Profit attributable to the Company's equity holders amounted to RMB4,254.6 million, an increase of 24.2%, lower than the growth rate of operating profit. The reason is because in 2011 the effective tax rate was 22.5%, significantly higher than the prior year.

Earnings per share amounted to RMB50.44 cents. The board of directors (the "Board") has recommended to declare a final dividend of RMB8.0 cents per share. Together with the interim dividend of RMB7.0 cents per share (paid on 27 October 2011), the total dividend for the year ended 31 December 2011 amounts to RMB15.0 cents per share.

### Summary of the overall business development strategy of the Group

The Group's business is broadly divided into two main segments – the footwear business and the sportswear business.

### Footwear business

Company-owned brands of the footwear business include Belle, Teenmix, Tata, Staccato, Senda, Basto, JipiJapa, Millie's, Joy & Peace and Mirabell, etc. Distribution brands include Bata, Geox, Clarks, Mephisto, BCBG, Merrell and Caterpillar, etc.

For company-owned brands, the Group mainly adopts a vertically integrated business model which covers product research and development, procurement, manufacturing, distribution and retailing. For distribution brands, the Group operates the business mainly in brand licensing and retail distribution.

The table below sets out the revenue from our company-owned brands and distribution brands, as well as international trade revenue, and their respective percentage of total revenue and comparative growth rates for the years indicated.

| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2011** | | 2010 | | |
| | **Revenue** | **% of total** | Revenue | % of total | Growth rate |
| Company-owned brands | **16,713.7** | **90.2%** | 13,383.3 | 91.4% | 24.9% |
| Distribution brands | **1,526.0** | **8.2%** | 1,044.2 | 7.1% | 46.1% |
| Sub-total | **18,239.7** | **98.4%** | 14,427.5 | 98.5% | 26.4% |
| International trade | **292.9** | **1.6%** | 221.9 | 1.5% | 32.0% |
| Total | **18,532.6** | **100.0%** | 14,649.4 | 100.0% | 26.5% |

*Unit: RMB million*

### Sportswear business

The majority of our sportswear business is in the form of distribution business, including first-tier sportswear brands Nike and Adidas, and second-tier sportswear brands Kappa, PUMA, Converse, and Mizuno, etc. The distinction between first-tier brands and second-tier brands is based on two major factors. First, their relative importance - Nike and Adidas account for more than 85% of the sales of the Group's sportswear business of the Group; Second, their operational, managerial and performance characteristics - Nike and Adidas have much better brand recognition among Chinese consumers and richer product offerings, as a result their store productivity is much higher than second-tier brands and thus profitability is also stronger.

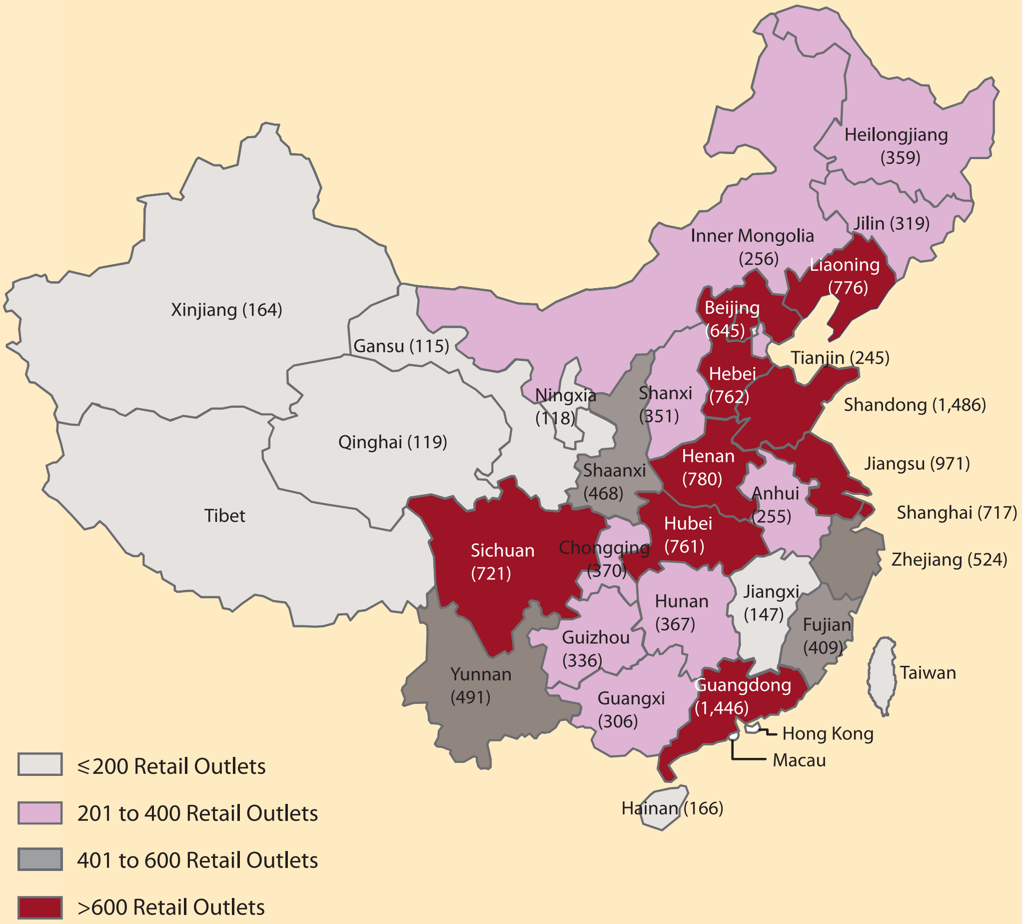
The table below sets out the revenue from our first-tier sportswear brands, second-tier sportswear brands as well as other sportswear business (including the apparel business) and their respective percentage of total revenue and comparative growth rates for the years indicated.

| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2011** | | 2010 | | |
| | **Revenue** | **% of total** | Revenue | % of total | Growth rate |
| First-tier sportswear brands | **9,075.5** | **87.2%** | 7,800.2 | 86.1% | 16.3% |
| Second-tier sportswear brands | **1,229.2** | **11.8%** | 1,148.7 | 12.7% | 7.0% |
| Other sportswear business | **107.4** | **1.0%** | 107.6 | 1.2% | (0.2%) |
| Total | **10,412.1** | **100.0%** | 9,056.5 | 100.0% | 15.0% |

*Unit: RMB million*

## Expansion of company-managed retail network

The following map shows the geographical distribution of the company-managed retail outlets of the Group in Mainland China as at 31 December 2011.



# STATEMENT FROM CEO

The following table sets out the distribution of our company-managed retail outlets by region and by business segment in Mainland China as at 31 December 2011.

| | Number of Company-managed Retail Outlets | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Footwear | | | Sportswear | | | | |
| Region | Company-owned brands | Distribution brands | Sub-total | First-tier brands | Second-tier brands | Apparel | Sub-total | Total |
| Eastern China | 1,486 | 246 | 1,732 | 654 | 81 | — | 735 | 2,467 |
| Shandong and Henan | 1,138 | 49 | 1,187 | 731 | 348 | — | 1,079 | 2,266 |
| Northern China | 1,464 | 174 | 1,638 | 463 | 153 | 5 | 621 | 2,259 |
| Southern China | 1,458 | 121 | 1,579 | 426 | 116 | — | 542 | 2,121 |
| North-eastern China | 897 | 92 | 989 | 374 | 91 | — | 465 | 1,454 |
| Central China | 651 | 74 | 725 | 291 | 112 | — | 403 | 1,128 |
| South-western China | 713 | 68 | 781 | 286 | 24 | — | 310 | 1,091 |
| North-western China | 686 | 84 | 770 | 176 | 38 | — | 214 | 984 |
| Yunnan and Guizhou | 487 | 29 | 516 | 201 | 110 | — | 311 | 827 |
| Guangzhou | 337 | 16 | 353 | — | — | — | — | 353 |
| Total | 9,317 | 953 | 10,270 | 3,602 | 1,073 | 5 | 4,680 | 14,950 |

*Note:* In addition, the Group operates 162 company-managed outlets in Hong Kong and Macau.

## Overview of the market and management discussions

### Impact of the macroeconomic environment on the Group's business

The macroeconomic environment in China was front-end loaded in 2011. With continued macro tightening inflationary pressure was tamed in the second half of the year. But at the same time the real estate market and the capital market were also negatively affected. The export sector experienced a slowdown in growth, due to increasing costs and sluggish demand from abroad as well as the European debt crisis, which in turn contributed much less to the overall economic growth than in the past.

The changes in the macroeconomic environment no doubt had a negative impact on consumer confidence. The consumer retail market in China as represented by the department store channel experienced a notable slowdown in growth momentum in the second half of the year especially in the fourth quarter. The retail business of the Group in Mainland China, especially our footwear business, is conducted mainly through the department store channel. As a result, in the second half of the year especially in the fourth quarter we noted a significant slowdown in same store sales growth, compared with the relatively high levels in the first half of the year.

In our view there will always be cyclical fluctuations within the macro economy but that does not change the upward trend of the economy to continuously grow and develop in the medium and long term. More specific to the consumer retail market in which the Group operates, which is still at an early developing stage, the future potential for growth will not change significantly due to short-term disruptions, given the economic growth potential as well as the trend of consumption upgrade and measures to promote domestic demand.

Meanwhile, it shall be noted that in the next phase of economic development, China's economy is expected to experience a structural transition and upgrade, bidding farewell to a high-growth stage of development mostly driven by investment and export. On a higher base the Chinese economy is expected to grow at a moderate pace in the next phase. Accordingly, the consumer retail market may also witness a more moderate pace of annual growth going forward, at a reasonable yet sustainable level. In light of these developments, the Group will continue to operate the existing business portfolio to achieve steady growth, actively explore new business opportunities and new target segments, and continue to strengthen the market coverage and competitiveness of the Group.

## Review of the footwear business

In 2011 the footwear business of the Group maintained relatively high growth in revenue. One important contributing factor was a high same store sales growth at over 15% for the full year. The growth in same store sales, on the one hand was derived from a continuously larger consumer base and stronger spending power, and on the other hand was a direct result of our continued effort to strengthen product competitiveness and service quality. We were delighted to observe that emerging brands in our portfolio including Joy & Peace, Millie's and Mirabell had come a long way in improving merchandising, operations, and retail management efficiency on the back of integration efforts in the past 2 to 3 years, which in turn helped stimulate higher-than-average same store sales growth. Another observation in 2011 was that the increase in average selling price was slightly higher than historical norm, which was also positive for same store sales growth. The increase in average selling price, to some extent, was a result of improved product mix and more efficient merchandising and operations. Another factor was that higher cost was driving prices up for the whole industry. Meanwhile, the changes in the promotional environment within the department store channel also contributed to higher realized prices when it was less promotional than expected. From an industry point of view, price increases should be more or less in line with cost increases. With the expected price increase in raw materials gradually slowing down, it is expected in the near future footwear unit price increases will also slow down. This normalization process was already under way at the end of 2011, which in our view, would be a positive factor in building our consumer base and ensuring the healthy development of the footwear market in the long run.

Another main driver of the relatively high growth in footwear was a fast pace of store network expansion. In 2011 we had a net addition of 1,958 footwear stores in Mainland China, representing a 23.6% increase from the 8,312 stores as of the end of 2010 and exceeding our expectations at the beginning of the year. Three main reasons contributed to the fast expansion. First, the department store channel expanded and penetrated into the markets of third-tier cities as well as suburban and community areas in major metropolitan cities, providing a strong pull for middle-end brands such as Belle. For example, the Belle brand alone opened more than 300 outlets during the year, adding coverage in more than 40 cities. Second, the emerging brands were relatively small in scale and at this particular stage of development these brands such as Millie's and Basto, based on our national retail platform in over 300 cities and with strong support from supply chain, retail management and business development, have the ability to quickly add presence in the department stores with existing relationships. Third, we have been actively exploring new market segments and product categories, and gaining appropriate exposure in the casual wear and men's footwear sections in the department stores. All these three main drivers will continue to be present in the foreseeable future, enabling our footwear business to continue the store network expansion process at a stable and reasonable pace.

The gross margin of the footwear business further improved from the prior year. One major reason was that the overall market price level was higher, helping a margin expansion. Another major reason was that the emerging brands in our portfolio continued to improve gross margins on the back of a more efficient supply chain and improved merchandising and operational capabilities. From an industry point of view, for each and every specific market segment, the competitive forces exist to drive gross margins stabilize at a certain level that reflects a given cost structure and expense structure. Therefore we never make it an overriding business objective to continuously increase gross margins. That being said, the industry-leading gross margins we enjoyed were mostly earned through merchandising, operations, and the built-in flexibilities in our supply chain, while maintaining price competitiveness. The margin premium was not a result of arbitrarily raised prices and as such could be sustainable. We are confident that the Group will be in a position to maintain a reasonable, healthy and industry-leading gross margin.

# STATEMENT FROM CEO

Together with the strong gross profit margins the footwear business also enjoyed slightly lower selling expenses as a percentage of sales. The main reason is lower promotion-related expenses as a percentage of sales due to a less promotional environment. General and administrative expenses as a percentage of sales increased slightly compared with the prior year, mostly because of higher business surtaxes. Future trend of the expense ratios would be largely dependent on the changes in the following two components. First, the changes in the promotional environment within the department store channel varieties. Given uncertainties with related government policies, as well as the variability in the type of promotions, magnitude of promotions, varieties of settlement and regional disparities, it is hard to forecast with reasonable assurance and quantification. However, back to the two basic relationships between department stores and us, between competing brands and us, the underlying economics and dynamics have not changed. The department stores and retailers like us always have shared interests in increasing traffic, promoting spending, and controlling expenses. We are confident that going forward both sides will continue to work together to create a win-win situation. With strong brands, superior merchandising and operational capabilities, we are also confident that we will be in a position to maintain and strengthen competitiveness vis-à-vis competing brands within each target segment. Industry as a whole, and more specific to our footwear business, promotion-related expenses as a percentage of sales are expected to remain at a reasonable and healthy level. Another main expense item in selling expenses is staff cost. Continued wage increase for front-line associates at a relatively fast pace is expected to add pressure on selling expenses and general and administrative expenses.

The core footwear brands continued a strong and healthy growth. First, revenue was growing at a steady pace, driven by strong same store sales growth as well as a fast retail network expansion. Taking the Belle brand as an example, in 2011 we added more than 300 stores, net, for this one brand, representing more than 20% growth in the number of points of sales from the end of the previous year. As discussed above, the strong network expansion for large-scale middle-end brands such as Belle is mainly due to the demand for well-known brands from channel operators and consumers when the department store channel continues to penetrate underserved markets. Second, the core brands continued to improve operating efficiencies and profitability while at the same time maintaining market-leading competitiveness.

Footwear brands acquired by the Group in 2007 and 2008 have been successfully integrated into the existing business framework and managerial systems of the Group within the past 2 to 3 years. All major processes, including product research and development, manufacturing, brand marketing, and retail operations, were reengineered according to our proven model, and based on the specific market positioning of each brand with a clear understanding that we need to retain the unique aspects that works and remove the pieces that does not work. These emerging brands have become an integral part of our footwear business portfolio with a promising growth profile. In 2011 the emerging brands contributed almost half of the new store additions and over one-third of incremental sales, becoming one of the major growth drivers in the footwear business of the Group.

In 2007, the first year the Group went public, the Group had only one brand with over RMB2 billion of annual sales. After four short years we now not only have our first 5-billion-Renminbi brand (Belle), but also have achieved across-the-board success with other brands under our umbrella, including three brands with over RMB2 billion of annual sales, two brands with over RMB1 billion of annual sales, and seven brands with over RMB100 million of annual sales. This achievement is clear evidence that the retail orientation of the Group, a multiple-brand strategy, and a business model that utilizes a vertical supply chain to support retail, are justified and effective. We believe in the strong scalability and penetration of our established nation-wide retail platform, which at the moment operates in just over 300 cities in China. With continued urbanization in China as well as continued income growth for consumers, the Group is in a unique position to achieve sustainable growth in the long run by effectively growing the market penetration for each brand within our portfolio, on the back of an efficient operating model and a strong retail network.

# STATEMENT FROM CEO

The results of our Hong Kong retail business were exceeding our expectations. In last year's annual report, we expected future growth would be limited in our Hong Kong retail business, both in terms of sales growth and in terms of profitability improvement, based on the following reasons. First, the economic growth in Hong Kong was expected to moderate in 2011. Second, there was already a high base in terms of per store sales productivity. Third, rent and staff cost continued to go up. When the actual results came in, we not only achieved double-digit revenue growth and same store sales growth, but also continued to improve gross margins and profit margins before tax. The Staccato brand continued to stand out. On an already high base Staccato achieved significant growth and further improvement. The outstanding results achieved in our Hong Kong retail business provided us with not only a number of insights but also more confidence. First, a high base in per store turnover in and of itself, will not become a hindrance for future growth. A high level of store turnover achieved by providing quality products and quality services while delivering value to consumers will not be a burden to future growth but on the contrary tends to be a positive factor. High store turnover helps train the retail team, polish the supply chain, and optimize operating processes, while at the same time cultivate a continuously larger customer base. For the same Staccato brand on the mainland per store sales productivity is only a quarter of that in Hong Kong. Growth potential is significant even taking into account the gaps in spending power, and the key drivers are the continuous improvements in the quality of front-line teams, active marketing, and retail operations. Second, profit margin improvement is by large a result of merchandising and operational capabilities, and not be a result of raised label prices. The pricing of our products sold in Hong Kong is not higher than in Mainland China. The reason why we were able to achieve higher gross margins in Hong Kong was mainly due to more efficient merchandising and operations, utilizing the flexible supply chain to optimize product mix in the retail stores, in which fast-moving products are being replenished quickly and slow-moving products are minimized to improve the overall gross margins. We are always of the view that the Hong Kong market is much more developed in retail management, marketing, and brand management than the mainland market. The experience accumulated in our Hong Kong business would play an important role in guiding and improving our retail business in Mainland China. By leveraging the retail expertise and skills of our Hong Kong team, the Group will be better positioned to maintain our leadership in the mainland market.

### Review of the sportswear business

In 2011 the sportswear business continued the moderate recovery starting from the previous year with a mid-single-digit same store sales growth. Profitability was under pressure when same store sales growth was moderate and expenses kept rising, reflecting the weaknesses in the sportswear market at the current stage of development. Generally speaking the following main reasons are behind the challenges faced by the sportswear business. First, in the past two years the department store channel has been making adjustments to the sportswear category, including downsizing the entire section, relocating the section to a less desirable floor, or getting out of this category entirely, all of which would no doubt place significant pressure on the sales of sportswear products. Second, the apparel products of international sportswear brands are less differentiated in the China market in terms of performance and technology. As a result their apparel business is facing intense competition when international apparel brands are making huge strides entering the China market, whereas their athletic footwear products enjoyed relatively better performance due to better differentiation and competitiveness. Third, the difficulties faced and adjustments made by some domestic sportswear brands recently, especially the clearance of excessive inventory in the channels, are taking a toll on the sportswear market as a whole.

In our view, the factors negatively affecting the sportswear market are temporary by nature. As a result, the difficulties we are facing are mostly temporary and associated with the current stage of development. With regard to the sales channel, there is a match between international sportswear brands and most department stores in China, in terms of price point and target customer groups. Once the process of adjustment and optimization is complete, department stores will again find commercial value in sportswear brands. Meanwhile the Group is also actively exploring the stand-alone store format, including the multi-brand sportswear specialty stores, in an effort to lead the industry in the potential diversification of channel choice and store format.

# STATEMENT FROM CEO

With regard to competition, we believe that with continued sophistication of Chinese consumers and more participation in sports and fitness, the functional positioning of apparel products will become clearly defined. Competition from brands mostly vested in other categories will not pose a lasting threat to sportswear brands. First tier international sportswear brands such as Nike and Adidas are already fully aware of the challenges in the apparel business and have been taking active measures to address the issues aimed at improving competitiveness by placing more emphasis on product differentiation and placing technology.

With regard to the inventory issues with certain domestic brands, we believe that if the brand companies take effective measures, with the full cooperation from distributors, it is only a matter of time to resolve the inventory issue, without long term impact on the sportswear market. The brand portfolio in our sportswear business also has a very different market positioning than most domestic brands. Thus the impact on our business is also expected to be limited and temporary. The Group has always been bullish on the potential development of tier-one international brands in the China market, based on the strong brand equity, superior product development and variety in the product line for brands such as Nike and Adidas. We intend to grow with these brands and continue to develop the China market in the long haul.

Based on the above, the Group continued to grow the store network at a fast pace in 2011, with a net increase in the total number of stores of 1,025 for the year, representing an increase of 28.0% from the number of stores at the end of the prior year. There are two major contributing factors. First, the channels continue to penetrate into lower tier markets, providing a strong pull for first-tier international sportswear brands. In 2011 the sportswear business of the Group started coverage in more than 30 cities and added presence in more than 200 department stores, indicating a strong demand for modern retail channels as well as first-tier international sportswear brands in small to medium cities and emerging neighborhoods in major cities. Second, there has been increased consolidation in the sportswear distribution market in the past two years. Weaker distributors lacking capital support and managerial capabilities are gradually exiting this business. For high-quality commercial assets, we are willing to actively consider the specific cases and consolidate relevant retail resources where there is a sound commercial case or strategic fit.

In our view, the overall value chain of sportswear market has to change in response to the escalating operating cost and also increasing consumer demand for value. Horizontal allocation of retail resources needs to be optimized toward high-quality retailers. Vertically the layers of distributors need to come down to leave more room for profitability. Leading retailers have to take charge and lead the change in an effort to consolidate and simplify the distributor market. These changes will take a long period of time, during which there will be short term disruption and pressure. But in the longer term these changes are necessary and beneficial in that the competitive landscape will improve and so is the profitability for retailers, both of which will help ensure long term sustainable growth of the sportswear market.

### Changes in the Group's business mix

Because of the significant differences in business model and profitability between the footwear segment and the sportswear segment, changes of the proportional weighting of the two business segments in the business mix would have a significant impact on the blended financial metrics and operational metrics of the Group. In 2011 the sportswear segment contributed 36.0% of the total revenue of the Group, lower than the 38.2% level in the prior year.

In our sportswear business we are only involved in distribution and retailing, while in the footwear business we operate along the whole value chain. Accordingly the sportswear business segment has significantly lower profitability, including gross margins and operating margins. Meanwhile, without involvement in manufacturing, the sportswear business has faster inventory turnover than the footwear business. The store format and location is also different in the sportswear business as compared with the footwear business. Generally speaking the sportswear stores are located on higher floors in department stores, with a larger size and higher sales volume on a per store basis. As a result, the concessionaire rate is usually lower for sportswear stores and expenses such as staff costs are also lower as a percentage of sales. In 2011, with the footwear business continuing to take a larger share of the revenue base while the sportswear business continuing to take a smaller share of the revenue base, the overall profitability metrics of the Group will edge higher, but at the same time certain operational metrics such as selling expenses as a percentage of sales, and inventory turnover days would be negatively affected.

Moving into 2012, we expect the sportswear business to take a slightly larger share of the revenue base as a result of business acquisition and consolidation. Due to the high quality of acquired assets and compatibility in resources with the existing business, such acquisitions are expected to help improve returns on invested capital for the sportswear business when creating a larger revenue base.

In the long term, we expect the footwear business and the sportswear business to maintain relatively balanced growth, due to shared characteristics in sales channels, market penetration, and the customer base.

### Changes in effective corporate income tax rate

The effective income tax rate of the Group was 22.5% in 2011, higher than the prior year by about 5.5 percentage points. The main reason is that a preferential treatment of 50% reduction in the prevailing tax rate in the region enjoyed by New Belle Footwear (Shenzhen) Limited ("New Belle"), the major tax entity for our footwear business in Mainland China, expired at the end of 2010. In 2010 the effective income tax rate was 11% for New Belle. In 2011 the applicable rate to New Belle was 24%. From 2012 onward New Belle will be subject to an income tax rate of 25%.

He Zhong Apparel (Shenzhen) Limited ("He Zhong"), another important subsidiary of the Group in the footwear business, is subject to a three-year preferential treatment of 50% reduction in the prevailing tax rate in the region from 2010 to 2012, the applicable rate to He Zhong would be 11%, 12% and 12.5%, respectively. From 2013 He Zhong will be subject to the full income tax rate of 25%.

In Mainland China, the income tax rate for other footwear businesses such as Senda as well as the sportswear business will remain at the current level of about 25%, which is not expected to change significantly. The income tax rate for our Hong Kong business is expected to be steady at about 16.5%. The withholding tax rate applicable to the Company's subsidiaries in Mainland China on remittance of dividends to foreign holding companies is 5%, which is expected to remain stable.

Since the implementation of the new enterprise income tax act in 2008, various preferential tax treatments and tax holidays enjoyed by certain tax entities of the Group in China were gradually expiring, resulting in higher effective income tax rate for the Group year after year. This normalization process is expected to be largely completed in 2013, when the effective income tax rate will eventually stabilize at 25% or slightly above.

With healthy growth of our business, we are also making a positive contribution to the society in promoting employment and developing local economies, which received warm welcome and recognition from various local governments. As a result, we expect to receive more government subsidies in the next 3 to 5 years. Government subsidies are usually recorded as other income, and will not directly offset income taxes.

### Inventory turnover

The inventory balance at the end of 2011 was RMB6,516.6 million, up 34.1% from the balance of RMB4,859.1 million at the end of 2010, while sales value was up only 22.1% in 2011 compared with the prior year. The average inventory turnover days were up from 152.6 days for 2010 to 167.6 days for 2011. The inventory turnover days for the footwear business were up from 178.6 days for 2010 to 202.0 days for 2011. For the sportswear business it was up from 131.5 days for 2010 to 137.4 days for 2011.

# STATEMENT FROM CEO

The inventory balance at the end of 2011 was relatively high, due to two major reasons. First, the Chinese New Year in 2012 was about 10 days earlier than the prior year and so was the peak sales season. Merchandising and procurement had to be shifted earlier accordingly. As a result inventory balance peaked at the end of December 2011. Second, sales growth and same store sales in the fourth quarter of 2011 were slower than expected, resulting in a moderate pileup of inventory.

A fast responding supply chain, merchandising flexibility and operational capabilities are the core pieces of our competencies. In daily operations and management, whenever inventory level is trending out of bounds, or the product mix is out of balance, our local managers would take timely actions to stimulate sales, including same-city transfers, tactical pricing, on-the-spot promotions, etc. Inventory decisions are also made with regard to weekly replenishment orders, in an effort to control the total quantity of inventory and optimize product mix. Processing of replenishment orders, manufacturing, and product delivery usually take at least 15 to 20 days. Therefore the adjustment measures taken by local managers will take a reasonable time period and will not have an immediate impact on the inventory position in the stores. Over a longer period of time, however, the constant adjustments we make will help us improve the dynamics and flexibility in managing our retail business. We are confident that, vis-à-vis competition we are in a position to strengthen our competitive advantage with superior product mix.

Coming into January 2012, the inventory balance gradually came down, due to higher sales turnover before the Chinese New Year, as well as active adjustment measures taken by our staff at various levels with regard to inventory, merchandising and sales. Product mix in our retails stores is also getting healthy progressively.

### The impact of higher wage cost and inflationary environment

The inflationary environment in 2011 had a direct impact on the living standards of millions of households, and triggered changes on consumer sentiment. From a cost point of view inflation is also putting on more pressure on businesses as well.

With regard to raw materials, there was a significant cost increase in the second half of 2010 and first half of 2011, which was subsequently reflected in the price increase of finished goods. Cost pass-through was fairly successful because consumer spending was strong. Higher prices did not have a significant impact on sales quantities. From the second half of 2011 the cost increases from raw materials started to moderate. In the near future we expect the price of raw materials to remain stable or increase at a moderate pace. The pressure on the footwear industry to continuously raise prices because of higher material cost will start to ease going forward. Meanwhile due to effective macro tightening measures the overall inflation is expected to be reined in, which will help stabilize the consumer base and promote a healthy consumer sentiment.

Another cost component that will have a lasting impact on our business is staff cost. The Group currently employs about 100,000 staff members, roughly one-third in manufacturing and two-thirds in retail. The wages of front-line workers and sales associates are increasing at a fast pace, over 15% per annum in the past two years. We expect their wages to continue to increase significantly in the next two to three years.

To alleviate pressure from higher labour cost on manufacturing we have been taking two major measures. One is the strategic relocation of our production facilities. Two to three years earlier with foresight we started to prepare a location planning to move some of the manufacturing to inland areas. The Anhui facility has been ramping up gradually after it started operations. We expect this facility to achieve a certain level of scale in the next year or two, which will help the Group effectively manage overall labour cost at manufacturing level. Another major task we are undertaking is to continuously improve efficiencies in manufacturing. After acquiring the Senda business, we invested heavily in the reallocation of human resources, reengineering of processes and revamping of technical specifications in the manufacturing facilities. Within the past one to two years these efforts clearly paid off, with significant improvement in production efficiencies, which helped effectively control production cost and labour cost.

The wage increase for retail staff will be a persistent trend going forward. In the next two to three years, retail staff expenses as a percentage of sales are expected to go up albeit at a moderate pace. We are always of the view that this is an unavoidable trend that features the changes happening during the current stage of business environment. As a retail business the right thing to do is to move with the flow and take proactive measures in an effort to turn the negative into positive factors. We are taking the following key measures and steps: first, proactively improving wages and compensation for front-line staff members to strengthen their sense of affiliation and enthusiasm at work; second, continued optimization of staffing through benchmarking, learning, and exchanging experiences among various sales regions; third, improving efficiencies on a per-store and per-person basis with better training for sales associates, higher service standards, and proper implementation of key performance indicator ("KPI") systems. We believe that the fast ramp-up of wage cost is only a phenomenon that is associated with the current stage of development in China. Once the average wage of low income workers reaches a certain level the growth rate will slow down. The improvement of operational efficiency and managerial quality, however, is a long-term accumulative process without limits. The continuous pursuit of improvement in managerial details and efficiency will help us maintain healthy and sustainable profitability in the long run.

### Acquisition and consolidation in the sportswear business

The Group announced an acquisition in the sportswear business. The target group is principally engaged in the sales and distribution of sportswear products, as well as the management of sports complexes, in certain cities of various provinces of the PRC. The products sold by the target group are mainly under the brands of Nike and Adidas, which are generally in line with the existing business of the Group.

The strategic reason for this acquisition is, as discussed above, to take a leadership role in the ongoing consolidation process in the sportswear distribution market in China, in an effort to selectively control strategic resources and occupy favorable retail locations. Furthermore we intend to keep the leadership position in the sportswear distribution market for first-tier international brands, which would help strengthen our presence in the marketplace, improve our bargaining power, and guarantee favorable commercial terms.

The decision to acquire the target group is primarily based on the following business considerations. First, the target group has a leading market position in certain areas in the PRC and the Company considers that the acquisition could strategically strengthen the Group's geographical presence in certain areas in the PRC. Second, the target group's limited scale preventing itself from enjoying favourable commercial terms including wholesale discount. Once consolidated into the Group the target company has the potential to improve commercial terms and strengthen profitability. Third, the target group is constrained by its managerial platform and does not have an efficient operation. The Group is in a position to improve the operational efficiencies of the target group by leveraging our existing managerial systems. Fourth, the nature of the business of the target group is in line with that of the Group, which potentially would enable economies of scale and synergy based on the existing platform maintained by the Group.

### New business initiatives and market positioning

In our view, there are many potential business opportunities and commercial value around our core footwear value chain and nation-wide retail network. In the past when the Group was smaller with limited resources we had to focus on the fast penetration of the high-return core footwear business. With twenty years of work behind us, we have already accumulated substantial experience and industry know-how. We have also achieved a level of scale, with an operational platform across 300 cities. At this moment we are in a position to explore and develop new customer groups and new market segments to continue to create commercial opportunities and consolidate industry resources. New business initiatives aiming at new customers, new product categories and new channels and formats will not only help the Group reduce potential commercial risk but also will support the long term sustainable growth of the Group.

# STATEMENT FROM CEO

In general terms, the new business initiatives of the Group are aligned along the following lines of thinking. First, in the women's fashion footwear market, our main objective is to expand the price range, with a clear emphasis on exploring and developing mass market brands, which are positioned slightly below the core middle-end brands of the Group. After extensive research and preparation on this specific market segment, we rolled out the first batch of fast fashion footwear stores under the ":15mins" brand in February 2012. Within the next year we plan to select certain regions to test out the brand, adding about 100 stores. This incremental approach will provide us with time to build up brand image, to strengthen product development, streamline the supply chain before we are in a position to have a fast ramp-up of the store network. Second, along the gender line, we are in the process of allocating more resources to the research and development of men's footwear, increasing the number of SKUs for men's shoes within existing middle-end women's footwear stores, and also opening dedicated men's footwear stores under the Belle brand in certain regions and department stores where the risk/reward profile is favourable. We have been seeing positive results from these efforts. In 2011 men's shoes accounted for more than 15% of the sales for the Belle brand. Third, by segmenting the market among different age groups, we start to enter the children's footwear market. The products as well as the distribution model in the children's footwear segment are different from our existing footwear business. As a result we chose to cooperate with industry veterans to develop this market together. The children's footwear market is still underdeveloped at the moment, without coherent brand proposition or well-defined distribution models. Children's footwear is not getting enough attention from department stores and on the consumer side the shopping habit is yet to be defined. Therefore we plan to take an incremental approach and focus on building skills and accumulating experience during the initial stage of development. While working on the licensed international cartoon character brands, we are also taking concrete steps to introduce international children's footwear brands with strong design and superior technology, and are in the process to prepare for the development of children's footwear under company-owned brands. We believe these efforts will help lay down a solid foundation for the long term development of the children's footwear business of the Group. Fourth, we have been actively experimenting with potential channel choice, including the multi-brand store format specifically for the shopping mall channel, as well as the B2C ecommerce channel. For the multi-brand store format, we have completed the professional team building process during the year. A strong team of professionals are actively working on the store image, operational management, and IT systems. We are well prepared to further penetrate the shopping mall channel with a variety of store images and differentiated product assortment in the near future.

To summarize, with regard to the abovementioned new business initiatives, the Group is taking a practical and incremental approach, mostly relying on organic growth with a 2-3 year objective to cultivate skills, integrate resources and test business models. The new initiatives are not expected to have a significant impact on either the revenue base, or profitability of the overall business of the Group. The only possible exception would be the B2C ecommerce business, which has the potential to achieve fast revenue growth, due to the nature of the industry as well as the advantages of the Group in products, supply chain and working capital. Since we rolled out the new yougou.com platform in July 2011, within a few months we have largely completed the building of a professional team, improvement to the IT infrastructure, establishment of warehousing facilities, and optimization of operational processes. At the moment, the order volume from yougou.com is consistently ranked within the top two B2C platforms specialized in footwear in China. The market environment and competitive landscape in 2012 now present yougou.com with enormous opportunities. On the one hand the chilling environment in the capital market will help eliminate weaker players. On the other hand the trend that consumers shop online will persist in the future at a fast and irreversible pace. The main objective for yougou.com within the next 2 to 3 years is to continue to improve the management of details, optimize the IT systems, and increase the variety of product choices, and become the leading B2C platform specialized in fashion footwear and apparel in China.

# STATEMENT FROM CEO

## Prospects

In 2011 with the combined effort of all my colleagues, the Group achieved all the managerial objectives as well as business targets we set at the beginning of the year, achieving satisfactory financial results. But we need to stay clear-headed in light of the uncertainties in the business environment and the economy, which requires alert and responsiveness on our side. In particular, since the fourth quarter of 2011, we have been observing a slowdown in growth momentum in the retail market as represented by the department store channel, which negatively impacted the business operations of channel operators as well as retail operators like us. These signs are, in a way, timely warnings for us, which might be helpful in that they put to test our ability to respond and adjust.

A basic understanding behind our managerial culture is that nobody can accurately forecast the future and human beings always make mistakes. What we need to do is not to try to forecast with more accuracy, or try to avoid mistakes, but to establish a system that helps us detect mistakes and make corrections and adjustments on a timely basis. Based on this understanding, we have been putting in a lot of energies in the past twenty years to establish and improve on a flexible supply chain centered on the continuous inventory replenishment model, and upon which built a retail management system that features active management, attention to details, and responsiveness. We believe that the learning ability and responsiveness built into our systems not only helped us in the past to succeed through competition, but also will continue to help us in the future to enhance market competitiveness, especially in an environment characterized by short term difficulties and disruptions.

At the core of any sound managerial system there is always the people factor. We will continue to invest more in human resources, raising wages for our front-line employees at a steady pace and strengthening on-the-job training. We are also committed to putting in more vigor in cultivating the corporate culture, which emphasizes on equality, practicality, work ethics, and diligence. At the same time we have plans in place to provide more support for key functions including research and development, designing, and merchandising by means of compensation packages and learning opportunities in an effort to cultivate people and retain talent, which is essential to our competitive edge in the marketplace.

In the past five years since the Group went public, we have experienced many ups and downs both in terms of market sentiment and also in terms of business environment, which naturally would have short term impacts on our performance and results. But over a longer time frame we have managed to achieve sustainable growth at a fast pace, as we focused on the market segments that we were familiar with, and always dedicated to improve our own capabilities in providing quality products and quality services. After years of hard work, we have laid down a solid foundation in our brand portfolio and category coverage. All lines of existing businesses are growing in an orderly and healthy manner. We have also largely completed the strategic positioning of and preparation for multiple new initiatives and potential growth areas. The next main task for us is to continue to improve on execution, aiming at better management of every detail to achieve higher efficiency. We will continue to focus on the development of lower tier markets to broaden our customer base. With the existing brands we will ramp up investment, both in terms of human resources and also in terms of funding, to continue to strengthen brand building and brand marketing. Meanwhile, we will continue to invest in the new business initiatives to build a continuous pipeline of business creation and growth opportunities.

**Sheng Baijiao**
*CEO and Executive Director*

20 March 2012

# MANAGEMENT DISCUSSION AND ANALYSIS

## Financial Review

The Group continued to benefit from steady growth. During the year ended 31 December 2011, the Group recorded revenue and operating profit of RMB28,944.7 million and RMB5,264.8 million respectively, achieving growth rate of 22.1% and 32.9% respectively. The profit attributable to the Company's equity holders during the year amounted to RMB4,254.6 million, an increase of 24.2% comparing with that of last year and lower than the growth rate of operating profit. It is because the effective tax rate in 2011 was 22.5%, higher than 17.0% in last year.

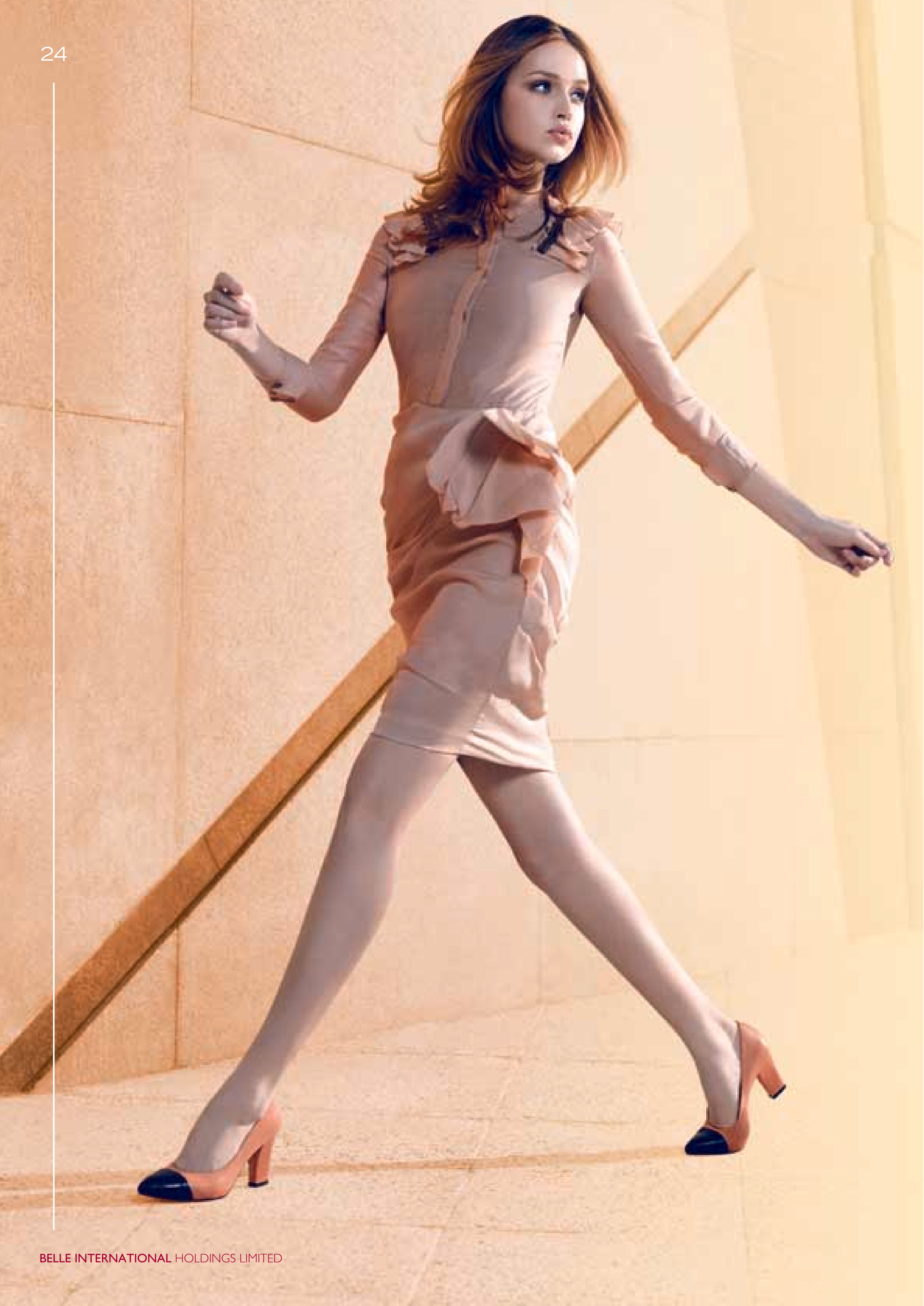
## Revenue

The Group's revenue increased by 22.1% to RMB28,944.7 million in 2011 from RMB23,705.9 million in 2010. This was mainly attributable to the continually steady growth of sales generated from the footwear business and the sportswear business as compared with those of last year. Sales from the footwear business and the sportswear business increased by RMB3,883.2 million and RMB1,355.6 million respectively, from RMB14,649.4 million and RMB9,056.5 million in 2010 to RMB18,532.6 million and RMB10,412.1 million in 2011.

| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2011** | | 2010 | | |
| | **Revenue** | **% of total** | Revenue | % of total | Growth rate |
| **Footwear** | | | | | |
| Company-owned brands | **16,713.7** | **57.7%** | 13,383.3 | 56.5% | 24.9% |
| Distribution brands | **1,526.0** | **5.3%** | 1,044.2 | 4.4% | 46.1% |
| International trade | **292.9** | **1.0%** | 221.9 | 0.9% | 32.0% |
| Sub-total | **18,532.6** | **64.0%** | 14,649.4 | 61.8% | 26.5% |
| **Sportswear** | | | | | |
| First-tier sportswear brands* | **9,075.5** | **31.4%** | 7,800.2 | 32.9% | 16.3% |
| Second-tier sportswear brands* | **1,229.2** | **4.2%** | 1,148.7 | 4.8% | 7.0% |
| Other sportswear business | **107.4** | **0.4%** | 107.6 | 0.5% | (0.2%) |
| Sub-total | **10,412.1** | **36.0%** | 9,056.5 | 38.2% | 15.0% |
| Total | **28,944.7** | **100.0%** | 23,705.9 | 100.0% | 22.1% |

*Unit: RMB million*

* *The first-tier sportswear brands include Nike and Adidas. The second-tier sportswear brands include Kappa, PUMA, Converse, and Mizuno, etc. The first-tier sportswear brands and second-tier sportswear brands are classified according to the Group's relative sales amounts.*



## Profitability

On account of the continuous growth of the Group's businesses, operating profit increased by 32.9% to RMB5,264.8 million. The profit attributable to the Company's equity holders increased by 24.2% to RMB4,254.6 million.

| | **Year ended 31 December** | | | | | |
|---|---|---|---|---|---|---|
| | **2011** | | 2010 | | Growth rate | |
| | **Footwear** | **Sportswear** | Footwear | Sportswear | Footwear | Sportswear |
| | ***RMB million*** | ***RMB million*** | *RMB million* | *RMB million* | % | % |
| Revenue | **18,532.6** | **10,412.1** | 14,649.4 | 9,056.5 | 26.5 | 15.0 |
| Costs of sales | **(5,786.6)** | **(6,602.2)** | (4,690.6) | (5,806.9) | 23.4 | 13.7 |
| Gross Profit | **12,746.0** | **3,809.9** | 9,958.8 | 3,249.6 | 28.0 | 17.2 |
| Gross profit margin (%) | **68.8** | **36.6** | 68.0 | 35.9 | | |

Costs of sales increased by 18.0% from RMB10,497.5 million in 2010 to RMB12,388.8 million in 2011. Gross profit increased by 25.3% from RMB13,208.4 million in 2010 to RMB16,555.9 million in 2011. Gross profit of the Group's footwear segment increased by 28.0% from RMB9,958.8 million in 2010 to RMB12,746.0 million in 2011. Gross profit of the sportswear segment increased by 17.2% from RMB3,249.6 million in 2010 to RMB3,809.9 million in 2011.

During the year, the gross profit margins of the footwear business and the sportswear business were 68.8% and 36.6% respectively. Comparing to those of last year, no material changes were observed in either business. Owing to differences in the respective business models, sportswear products generally have lower gross profit margins than that of footwear products. As there has been a change in the Group's proportional sales between the footwear business and the sportswear business, the Group's gross profit margin as a whole increased from 55.7% in 2010 to 57.2% in 2011.

Selling and distribution expenses in 2011 amounted to RMB9,212.8 million (2010: RMB7,685.8 million), primarily consisting of concessionaire fees and rental expenses, sales personnel salaries and commissions, depreciation charges on retail outlets' decorations and advertising and promotional expenses. General and administrative expenses in 2011 amounted to RMB2,192.4 million (2010: RMB1,619.8 million), primarily consisting of management and administrative personnel salaries, depreciation charges on office premises and office equipments, and business surtaxes. In terms of percentage, the ratios of selling and distribution expenses, and general and administrative expenses to revenue was 31.8% (2010: 32.4%) and 7.6% (2010: 6.8%) respectively.

Interest income increased from RMB132.4 million in 2010 to RMB193.7 million in 2011. It is mainly due to the increase in the overall bank deposit interest rates, the Group's internal cash reserve, and proportion of structured bank deposits with higher interest rate earned in 2011.

Interest expense increased to RMB18.8 million in 2011 from RMB1.7 million of last year, as a result of the increase in the Group's bank borrowings and bank borrowing interest rates. During the year ended 31 December 2011, Renminbi appreciated against Hong Kong dollars by 4.96%, together with the fact that the Group's bank borrowings are denominated in Hong Kong dollar, the Group recorded net foreign exchange gains of RMB30.5 million (2010: RMB31.9 million) as a result.

# MANAGEMENT DISCUSSION AND ANALYSIS

Income tax expense in 2011 amounted to RMB1,232.1 million (2010: RMB700.6 million). The effective income tax rate increased by 5.5 percentage points to 22.5% in 2011 from 17.0% last year. The main reason is that New Belle Footwear (Shenzhen) Limited ("New Belle"), a major domestic operating unit of the Group in the footwear business, was subject to a higher corporate income tax rate of 24% in 2011 (2010: 11%). It was granted a 50% reduction in income tax from 2008 to 2010 and started to be subject to standard tax rate since 2011. New Belle and He Zhong Apparel (Shenzhen) Limited ("He Zhong"), another major domestic operating unit, are both incorporated in Shenzhen, a special economic zone where the standard tax rate is 24% in 2011 (2010: 22%). He Zhong was exempted from corporate income taxes in 2008 and 2009, and was granted a 50% reduction in income tax from 2010 to 2012. Hence, He Zhong was subject to a corporate income tax rate of 12% in 2011 (2010: 11%). On the other hand, both the average corporate income tax rates for the Senda business and the sportswear business are approximately 25%.

## Other Income

Other income consists mainly of government incentives and rental income amounted to RMB114.1 million (2010: RMB29.2 million).

## Capital Expenditure

The Group's capital expenditures primarily comprised of payments and deposits for purchase of property, plant and equipment, land use rights and intangible assets. During the year ended 31 December 2011, the total capital expenditure was RMB1,697.4 million (2010: RMB1,238.6 million).

## Liquidity and Financial Resources

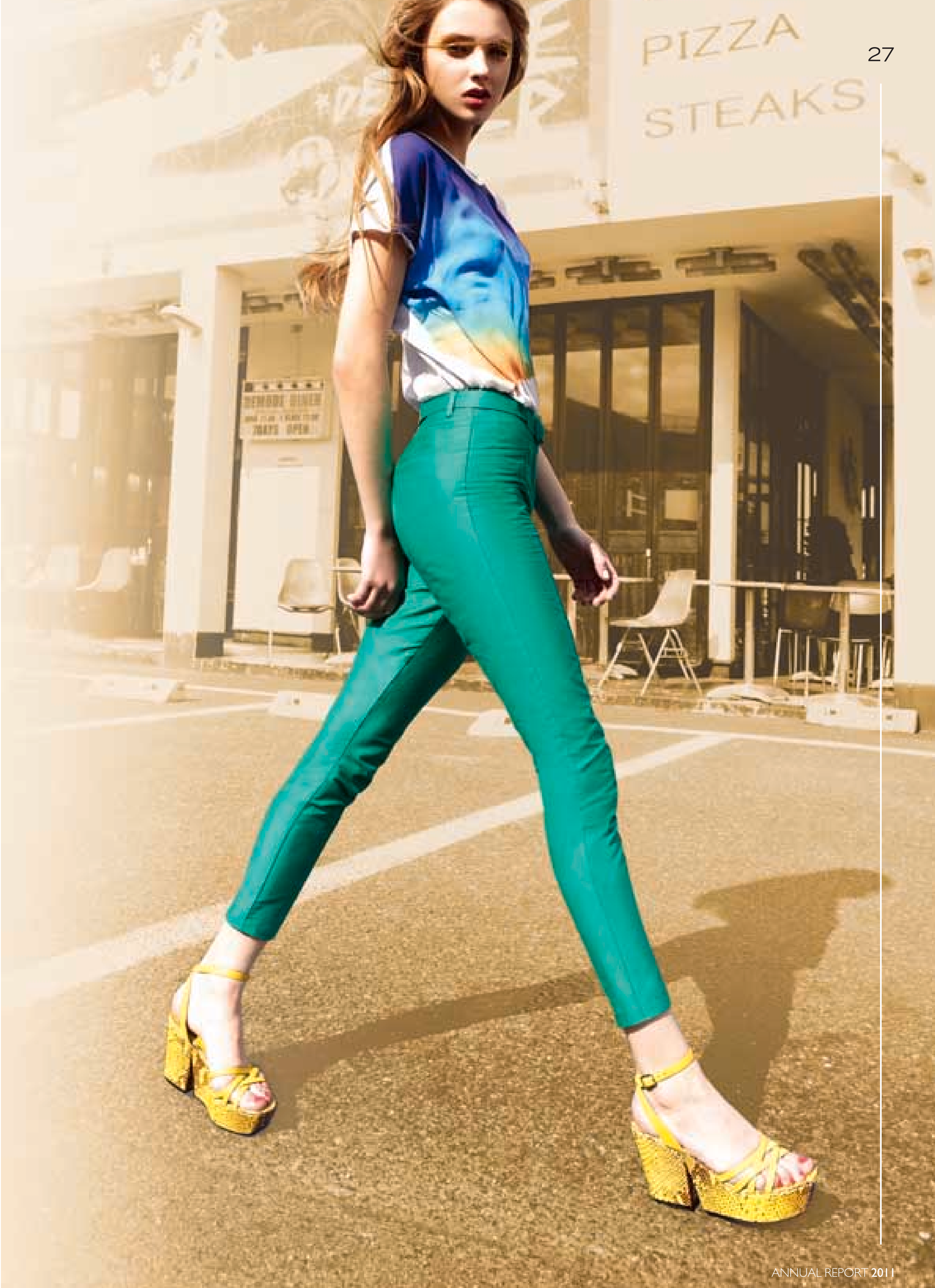
The Group maintains a strong and healthy balance sheet. As at 31 December 2011, the net working capital of the Group was RMB11,986.5 million, representing an increase of 11.9% as compared to that as at 31 December 2010. As at 31 December 2011, the Group's gearing ratio was 7.4% (31 December 2010: 3.3%) (gearing ratio is calculated using the following formula: Total Borrowings / Total Assets). The Group's current ratio was 3.1 times (31 December 2010: 4.1 times) (current ratio is calculated using the following formula: Current Assets / Current Liabilities).

During the year, net cash generated from operations increased by RMB752.8 million from RMB3,049.9 million in 2010 to RMB3,802.7 million in 2011.

Net cash used in investing activities for the year ended 31 December 2011 was RMB1,921.9 million (2010: RMB232.4 million). During the year, the Group invested approximately RMB1,664.4 million and RMB475.0 million on payments and deposits for purchase of property, plant and equipment (including retail outlets' decorations) and net deposit in structured bank deposits respectively. Net uplift of term deposits with initial terms of over three months of approximately RMB393.3 million partly offset the above investments.

During the year, net cash used in financing activities was RMB381.8 million (2010: RMB1,914.6 million), mainly attributable to the 2010 final and special dividend payment of RMB1,349.5 million and the 2011 interim dividend payment of RMB590.4 million and partly offset by net proceeds from borrowings of RMB1,277.2 million and contribution from non-controlling interests of RMB167.7 million.

As at 31 December 2011, the Group held cash and cash equivalents, structured bank deposits and term deposits with initial terms of over three months totaling RMB6,750.8 million (31 December 2010: RMB5,893.2 million), and was in a net cash position of RMB4,855.4 million (31 December 2010: RMB5,212.5 million) after netting off the short-term borrowings of RMB1,895.4 million (31 December 2010: RMB680.7 million).


PIZZA
STEAKS

# MANAGEMENT DISCUSSION AND ANALYSIS

## Bank loans and other borrowings

As at 31 December 2011, the Group's bank loans and other borrowings were RMB1,895.4 million (2010: RMB680.7 million) and the Group's utilized banking facilities amounted to RMB2,088.4 million (2010: RMB680.7 million).

Particulars of bank borrowings of the Company and of the Group as at 31 December 2011 are set out in note 32 to the financial statements.

## Pledge of Assets

As at 31 December 2011, no property, plant and equipment, land use rights and investment properties were pledged as security for banking facilities available to the Group (2010: nil).

## Contingent Liabilities

As at 31 December 2011, the Group had no material contingent liabilities.

## Exposure to Fluctuations in Exchange Rates

Details of the exposure to fluctuations in exchanges rates of the Group as at 31 December 2011 are set out in note 3.1(a) to the financial statements.

## Subsequent Events

On 20 March 2012, Synergy Eagle Limited (the "Buyer"), as the buyer, a wholly-owned subsidiary of the Company and, inter alia, an independent third party to the Company (the "Seller"), as the seller, entered into a share purchase agreement (the "Agreement") pursuant to which the Seller has agreed to sell to the Buyer the entire equity interest in Big Step Limited ("Big Step") at a consideration of RMB880,000,000 (subject to adjustments with a maximum cap of RMB920,000,000) (the "Consideration"), which will be satisfied by the Buyer in the following manner:

(1) RMB264,000,000, being 30% of the Consideration payable within 15 business days from the date of the Agreement;

(2) RMB528,000,000, being 60% of the Consideration payable at completion ("Completion"); and

(3) RMB88,000,000, being 10% of the Consideration payable after the last day of the period from the date of Completion (the "Completion Date") up to (and including) the end of the 18th month thereafter.

The Consideration may be adjusted with reference to the net assets of Big Step and its subsidiaries as at the Completion Date.

Big Step and its subsidiaries are principally engaged in the sales and distribution of sportswear products and operate approximately 600 self-managed retail outlets in certain cities of various provinces of the PRC. The products sold by Big Step and its subsidiaries are mainly under the brands of Nike and Adidas, which are generally in line with the existing business of the Group.

Other than the matter disclosed above, there have been no matters that have occurred subsequent to the year-end date which have significantly affected, or may significantly affect the Group's operations, results or state of affairs as at 31 December 2011.

## Human Resources

As at 31 December 2011, the Group had a total of 103,132 employees (31 December 2010: 87,619 employees). During the year ended 31 December 2011, total staff cost was RMB3,907,201,000 (2010: RMB2,897,816,000), accounting for 13.5% (2010:12.2%) of the revenue of the Group. The Group offers a competitive remuneration package to its employees, including mandatory retirement funds, insurance and medical coverage. In addition, discretionary bonus may be granted to eligible employees based on the Group's and individual's performance. The Group also allocated resources for providing continuing education and training for management and employees so as to improve their skills and knowledge.

# REPORT OF THE DIRECTORS

The board of directors (the "Board") have pleasure in submitting their annual report together with the audited financial statements for the year ended 31 December 2011.

## Principal Activities

The principal activity of the Company is investment holdings. The principal activities and other particulars of the principal subsidiaries are set out in note 41 to the financial statements.

The analysis of the Group's performance by reportable segments of the Group during the year are set out in note 5 to the financial statements.

## Results and Dividends

The profit of the Group for the year ended 31 December 2011 and the financial position of the Group and of the Company as at that date are set out in the financial statements on pages 48 to 116.

The Board declared on 25 August 2011 an interim dividend of RMB7.0 cents per share, totaling RMB590,396,000. The interim dividend was paid on 27 October 2011.

The Board recommended the payment of a final dividend for the year ended 31 December 2011 of RMB8.0 cents (equivalent to HK9.85 cents) per share, totaling RMB674,739,000.

The translation of RMB into Hong Kong dollars is made for illustration purpose only, at the rate of HK$1.00=RMB0.81193. The actual translation rate for the purpose of dividend payment in Hong Kong dollars will be the official fixing exchange rate of RMB against Hong Kong dollars as quoted by the People's Bank of China on 29 May 2012, being the date on which the dividend is proposed to be approved by the shareholders of the Company at its annual general meeting.

## Closure of Register of Members

The register of members of the Company will be closed as follows:

(a) For the purpose of ascertaining shareholder's eligibility to attend and vote at the annual general meeting to be held on Tuesday, 29 May 2012, the register of members of the Company will be closed from Friday, 25 May 2012 to Tuesday, 29 May 2012, both days inclusive. To be eligible to attend and vote at the annual general meeting, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's Hong Kong Branch Share Registrar, Computershare Hong Kong Investor Services Limited no later than 4:30 p.m. on Thursday, 24 May 2012.

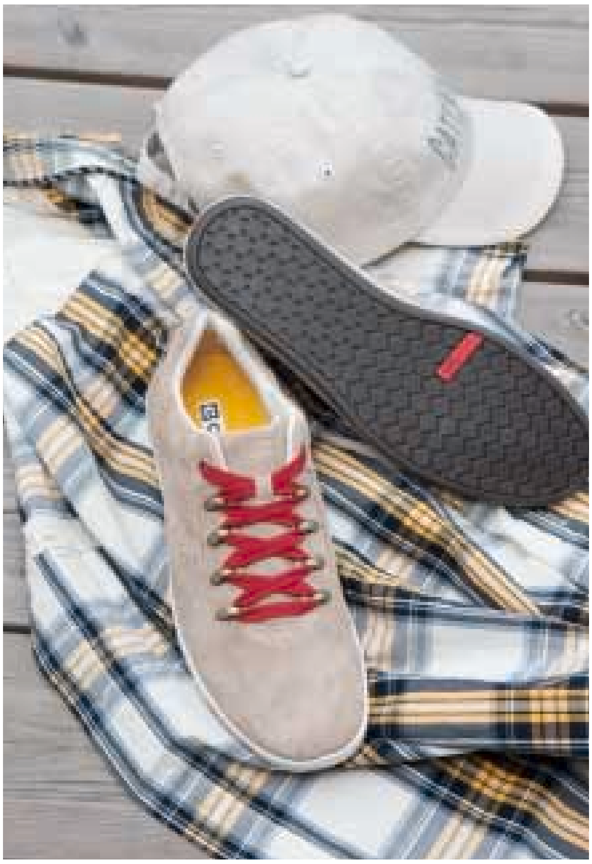
(b) The final dividend will be payable on or about 20 June 2012 to the shareholders whose names appear on the register of members of the Company on Thursday, 7 June 2012. For the purpose of ascertaining shareholder's eligibility for the final dividend, the register of members of the Company will be closed from Tuesday, 5 June 2012 to Thursday, 7 June 2012, both days inclusive. To qualify for the final dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with Computershare Hong Kong Investor Services Limited no later than 4:30 p.m. on Monday, 4 June 2012.

The address of Computershare Hong Kong Investor Services Limited is Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

# REPORT OF THE DIRECTORS

## Distributable Reserves

As at 31 December 2011, distributable reserves (including share premium and retained earnings) of the Company amounted to RMB11,664,709,000 (2010: RMB11,704,950,000). The movements on distributable reserves during the year are set out in notes 33 and 34 to the financial statements.



## Major Customers and Suppliers

During the year under review, sales to the Group's five largest customers accounted for less than 5% of the Group's total sales for the year.

Purchases from the Group's five largest suppliers accounted for approximately 46.08% of the Group's total purchases for the year and purchases from the largest supplier included therein accounted for approximately 23.81% of the Group's purchases.

During the year, none of the Directors, their associates or any shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had any interest in these major suppliers or customers.

## Property, Plant and Equipment

During the year, the Group acquired property, plant and equipment of RMB1,225,341,000 (2010: RMB968,303,000). Details of the movements in property, plant and equipment are set out in note 16 to the financial statements.

## Share Capital

There was no change in the total number or structure of shares of the Company as a result of bonus issue, conversion from reserves, placing, allotment of new shares or any other reasons during the year.

Neither the Company nor any of its subsidiaries have purchased, sold or redeemed any of the Company's shares during the year.

Particulars of share capital and share premium of the Company during the year are set out in note 33 to the financial statements.

## Pre-emptive Rights

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands where the Company is incorporated.

# REPORT OF THE DIRECTORS

## Directors

The Directors during the year and up to the date of this report were:

### Executive Directors

Mr. Tang Yiu *(Chairman)*
Mr. Sheng Baijiao *(Chief Executive Officer)*
Mr. Tang King Loy
Mr. Sheng Fang*
Mr. Yu Mingfang^

### Non-executive Directors

Mr. Gao Yu
Ms. Hu Xiaoling

### Independent Non-executive Directors

Mr. Ho Kwok Wah, George
Mr. Chan Yu Ling, Abraham
Dr. Xue Qiuzhi

* *Appointed as an Executive Director effective from 26 May 2011*
^ *Resigned as an Executive Director effective from 24 March 2011*

In accordance with article 87 of the Company's articles of association, Mr. Tang Yiu (an Executive Director), Mr. Sheng Baijiao (an Executive Director) and Mr. Ho Kwok Wah, George (an Independent Non-executive Director) shall retire from office by rotation at the forthcoming annual general meeting. Mr. Tang Yiu, being eligible, offers himself for re-election as a Non-executive Director at the forthcoming annual general meeting. Mr. Tang Yiu will remain as Chairman of the Company. Mr. Sheng Baijiao and Mr. Ho Kwok Wah, George, being eligible, offer themselves for re-election as Directors at the forthcoming annual general meeting.

The biographical details of the Directors and senior management as at the date of this report are set out in this report on pages 43 to 45.

## Directors' Service Contracts

Each of the Executive Directors has entered into a service contract with the Company on 20 March 2010 for a term of three years commencing on 1 May 2010, subject to termination before expiry by either party giving not less than three months' notice in writing to the other. The emoluments specified in the service contract appointing an Executive Director consist of basic salary (which is subject to annual review of the Board and the Remuneration Committee), mandatory retirement fund contributed by the Group and a discretionary bonus as may be decided by the Board and the Remuneration Committee at their discretion. Emoluments are determined with reference to the job responsibility of the Executive Director, the prevailing market rate for his position in the Group, together with a discretionary bonus based on his performance.

# REPORT OF THE DIRECTORS

Each of the Non-executive and Independent Non-executive Directors has entered into a letter of appointment with the Company on 20 March 2010 for an initial term of one year commencing on 1 May 2010, and shall continue thereafter for successive period of one year subject to a maximum of three years unless terminated by either party giving at least one month's notice in writing. No fees are payable to our Non-executive Directors under the appointment letters. The emoluments payable to an Independent Non-executive Director are determined with reference to his job responsibility and the prevailing market rate for his position.

No Director proposed for re-election at the forthcoming annual general meeting has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

There was no arrangement under which a Director waived or agreed to waive any remuneration during the year ended 31 December 2011.

## Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 31 December 2011, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

### (i) Interests in issued shares of the Company

| Name of Director | Capacity/ Nature of Interest | Number of Shares *(Note 1)* | Approximate percentage of interest in the Company |
|---|---|---|---|
| Mr. Tang Yiu | Interest in controlled corporation *(Note 2)* | 2,627,500,000 (L) | 31.15% |
| Mr. Sheng Baijiao | Founder of a discretionary trust *(Note 3)* | 580,877,000 (L) | 6.89% |
| | Beneficial Interest | 75,000,000 (L) | 0.89% |

*Notes:*

(1) The letter "L" denotes a long position in shares.

(2) These ordinary shares of HK$0.01 each in the share capital of Company ("Shares") were held by Profit Leader Holdings Limited ("Profit Leader"). Mr. Tang Yiu was beneficially interested in the entire issued share capital of Merry Century Investments Limited ("Merry Century") and Merrylink Resources Limited, which were together interested in 66.64% of the issued share capital of Profit Leader.

(3) Effective from 13 April 2011, Mr. Sheng Baijiao is interested in the Shares through a trust, of which he is a founder and a beneficiary.

### (ii) Interests in underlying shares of the Company

None of the Directors of the Company has been granted options under the Company's share option scheme, details of which are set out in the section "Share option scheme" below.

Apart from the foregoing, none of the Directors or chief executive of the company or any of their spouses or children under eighteen years of age has interests or short positions in the shares, underlying shares or debentures of the Company, or any of its holding company, subsidiaries or other associated corporations, as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company pursuant to the Model Code.

## Substantial Shareholders' and Other Persons' Interests and Short Positions in Shares and Underlying Shares

As at 31 December 2011, the interests or short positions of the persons, other than Directors and chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO, were as follows:

| Name of shareholders | Capacity/ Nature of Interest | Number of Shares *(Note 1)* | Approximate percentage of interest in the Company |
|---|---|---|---|
| Credit Suisse Trust Limited | Trustee | 3,781,750,000 (L) | 44.84% |
| Handy Limited | Beneficial Interest | 580,877,000 (L) | 6.89% |
| Essen Worldwide Limited | Beneficial Interest | 573,373,000 (L) | 6.80% |
| Profit Leader | Beneficial Interest | 2,627,500,000 (L) | 31.15% |
| Best Contact Holdings Limited | Interest in controlled corporation *(Note 2)* | 580,877,000 (L) | 6.89% |
| Merry Century | Interest in controlled corporation *(Note 3)* | 2,627,500,000 (L) | 31.15% |
| Golden Coral Holdings Limited | Interest in controlled corporation *(Note 3)* | 2,627,500,000 (L) | 31.15% |
| JPMorgan Chase & Co. | Interest in controlled corporation *(Note 4)* | 422,814,793 (L)<br>6,125,000 (S)<br>310,402,908 (P) | 5.01%<br>0.07%<br>3.68% |

*Notes:*

(1) The letter "L" denotes a long position in the Shares; the letter "S" denotes a short position in the Shares; the Letter "P" denotes a lending pool in the Shares.

(2) These Shares were held by Handy Limited. Best Contact Holdings Limited was interested in 59.43% of the issued share capital of Handy Limited.

(3) These Shares were held by Profit Leader. Merry Century was interested in 55.73% of the issued share capital of Profit Leader. Golden Coral Holdings Limited was interested in 33.36% of the issued share capital of Profit Leader.

# REPORT OF THE DIRECTORS

(4) JPMorgan Chase & Co. had long position of 16,153,885 Shares, 96,258,000 Shares and 310,402,908 Shares in its capacity as beneficial owner, investment manager and custodian corporation/approved lending agent, respectively. JPMorgan Chase & Co. was interested in such Shares through its interests in controlled corporations. Of these Shares, 318,003,908 Shares were directly held by JPMorgan Chase Bank, N.A., 37,404,000 Shares were directly held by JF Asset Management Limited, 5,818,885 Shares were directly held by J.P. Morgan Securities Ltd.,10,335,000 Shares were directly held by J.P. Morgan Whitefriars Inc., 2,635,000 Shares were directly held by JPMorgan Asset Management (Singapore) Limited, 372,000 Shares were directly held by JPMorgan Funds (Asia) Limited, 18,856,000 Shares were directly held by JPMorgan Asset Management (UK) Limited, 2,675,000 Shares were directly held by JF Asset Management (Taiwan) Limited, 26,715,000 Shares were directly held by J.P. Morgan Investment Management Inc., all of which were controlled, directly or indirectly, by JPMorgan Chase & Co.. JPMorgan Chase & Co. also had short position of 6,125,000 Shares in the capacity as beneficial owner. Of these short position of Shares, 5,600,000 Shares were directly held by J.P. Morgan Securities Ltd. and 525,000 Shares were directly held by J.P. Morgan Whitefriars Inc., both of which were controlled indirectly by JPMorgan Chase & Co..

Save as disclosed above, no other parties (other than Directors and chief executive of the Company) has disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of SFO or were recorded in the register kept by the Company under section 336 of the SFO as having an interest or a short position in the shares or underlying shares of the Company as at 31 December 2011.

## Share Option Scheme

The Company adopted its share option scheme pursuant to a shareholders resolution passed on 27 April 2007 (the "Share Option Scheme"). The purpose of the Share Option Scheme is to provide an incentive for Qualified Participants (defined below) to work with commitment towards enhancing the value of the Company and its shares for the benefit of the shareholders of the Company and to retain and attract calibres and working partners whose contributions are or may be beneficial to the growth and development of the Group.

Pursuant to the Share Option Scheme, the Board may at its discretion grant options to (i) any executive director, or employee (whether full time or part time) of the Company, any member of the Group or any entity in which any member of the Group holds an equity interest ("Invested Entity"); (ii) any non-executive director (including independent non-executive director) of the Company, any member of the Group or any Invested Entity ((i) and (ii) collectively referred to as "Eligible Employees"); (iii) any supplier of goods or services to the Company, any member of the Group or any Invested Entity; (iv) any customer of the Company, any member of the Group or any Invested Entity; and (v) any such persons (including but not limited to consultant, advisor, contractor, business partner or service provider of the Company or any member of the Group or any Invested Entity) who in the absolute discretion of the Board has contributed or will contribute to the Group (collectively referred to as "Qualified Participants").

The Share Option Scheme shall be valid and effective for 10 years from the date on which the shares of the Company first commenced trading on the Stock Exchange (the "Listing Date"). The maximum number of shares of the Company in respect of which options may be granted under the Share Option Scheme or any other share option schemes as may be adopted by the Company shall not in aggregate exceed the number of shares that shall represent 10% of the total number of Shares in issue as of the Listing Date, unless such scheme mandate limit is renewed by shareholders of the Company in a general meeting.

No options have been granted under the Share Option Scheme by the Group since its adoption to the date of this annual report.

Apart from the foregoing, at no time during the year was the Company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors of the Company to acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate.

## Sufficiency of Public Float

Based on the information that is publicly available to the Company and within the knowledge of the Directors of the Company as at the date of this annual report, the Company has maintained the prescribed minimum public float under the Listing Rules.

## Directors' Interests in Contracts

No contract of significance to which the Company or any of its subsidiaries was a party, and in which a Director of the Company had a material interest, either directly or indirectly, were subsisting during or at the end of the financial year ended 31 December 2011.

## Directors' Interests in Competing Business

Pursuant to Rule 8.10 of the Listing Rules, each of the Directors has confirmed that he/she does not have any interest in any business apart from the Group's business, which competes or is likely to compete, either directly or indirectly with the Group's business.

## Bank Borrowings

Particulars of bank borrowings of the Company and of the Group as at 31 December 2011 are set out in note 32 to the financial statements.

## Connected Transaction

The Company did not (i) have any outstanding continuing connected transaction or (ii) enter into any connected transaction for the year ended 31 December 2011.

None of the related party transactions set out in note 39 to the financial statements constitutes connected transactions or continuing connected transactions under Chapter 14A of the Listing Rules.

## Five-year Financial Summary

A summary of the results and the assets and liabilities of the Group for the last five financial years is set out as follows:

| | **2011** | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|
| | ***RMB'000*** | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Revenue | **28,944,704** | 23,705,890 | 19,761,634 | 17,855,785 | 11,671,858 |
| Gross profit | **16,555,899** | 13,208,363 | 10,541,611 | 9,228,413 | 5,902,466 |
| Gross profit margin | **57.20%** | 55.72% | 53.34% | 51.68% | 50.57% |
| Operating profit | **5,264,809** | 3,962,503 | 2,824,165 | 2,279,303 | 1,754,915 |
| Operating profit margin | **18.19%** | 16.72% | 14.29% | 12.77% | 15.04% |
| Profit attributable to equity holders of the Company | **4,254,584** | 3,424,531 | 2,533,499 | 2,010,435 | 1,979,106 |
| Structured bank deposits, term deposits, bank balances and cash | **6,750,822** | 5,893,179 | 5,792,371 | 2,984,605 | 5,213,167 |
| Bank loans and bills payable | **1,895,417** | 680,744 | 1,115,253 | 503,488 | 200,000 |
| Total assets | **25,681,175** | 20,832,032 | 18,624,731 | 17,022,559 | 13,539,243 |
| Total liabilities | **6,087,399** | 3,717,231 | 3,301,730 | 3,591,208 | 1,502,882 |
| Total equity | **19,593,776** | 17,114,801 | 15,323,001 | 13,431,351 | 12,036,361 |

# REPORT OF THE DIRECTORS

## Retirement Schemes

Particulars of the retirement schemes of the Group are set out in note 14 to the financial statements.

## Confirmation of Independence

The Company has received from each of the Independent Non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules, and considers all the Independent Non-executive Directors to be independent.

## Auditor

PricewaterhouseCoopers retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of PricewaterhouseCoopers as the auditor of the Company is to be proposed at the forthcoming Annual General Meeting.

By order of the Board

**Tang Yiu**
*Chairman*

Hong Kong, 20 March 2012

# CORPORATE GOVERNANCE REPORT

The board of directors (the "Board") is committed to upholding a high standard of corporate governance and business ethics in the firm belief that they are essential for enhancing investors' confidence and maximizing shareholders' returns. The Board reviews its corporate governance practices from time to time in order to meet the rising expectations of stakeholders, comply with increasingly stringent regulatory requirements and fulfill its commitment to excellence in corporate governance.

During the year ended 31 December 2011, the Company has complied with the code provisions set out in the Code on Corporate Governance Practices (the "CG Code") as stated in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules").

## Board

The Board is committed to providing effective and responsible leadership for the Company. The Directors, individually and collectively, must act in good faith in the best interests of the Company and its shareholders.

The Board comprises four Executive Directors, two Non-executive Directors and three Independent Non-executive Directors. The Board has established three Board committees, being the Audit Committee, the Remuneration Committee and the Nomination Committee, to oversee different areas of the Company's affairs. The composition of the Board and the Board committees are given below and their respective responsibilities and work performed during the year are discussed in this report.

| **Board of Directors** | **Audit Committee** | **Remuneration Committee** | **Nomination Committee** |
|---|---|---|---|
| *Executive Directors* | | | |
| Mr. Tang Yiu *(Chairman)* | N/A | N/A | N/A |
| Mr. Sheng Baijiao *(Chief Executive Officer)* | N/A | √ | √ |
| Mr. Tang King Loy | N/A | N/A | N/A |
| Mr. Sheng Fang* | N/A | N/A | N/A |
| Mr. Yu Mingfang^ | N/A | N/A | N/A |
| *Non-executive Directors* | | | |
| Mr. Gao Yu | N/A | N/A | N/A |
| Ms. Hu Xiaoling | N/A | N/A | N/A |
| *Independent Non-executive Directors* | | | |
| Mr. Ho Kwok Wah, George | √ | N/A | N/A |
| Mr. Chan Yu Ling, Abraham | √ | √ | √ |
| Dr. Xue Qiuzhi | √ | √ | √ |

* *Appointed as an Executive Director effective from 26 May 2011*

^ *Resigned as an Executive Director effective from 24 March 2011*

The Board sets the Group's overall objectives and strategies, monitors and evaluates its operating and financial performance and reviews the corporate governance standard of the Group. It also decides on matters such as annual and interim results, major transactions, director appointments or re-appointments, dividend and accounting policies. The Board has delegated the authority and responsibility for implementing its business strategies and managing the daily operations of the Group's businesses to the Executive Directors and members of senior management. The Company maintains appropriate directors' and officers' liabilities insurance.

# CORPORATE GOVERNANCE REPORT

During the year, the Board convened a total of five Board meetings based on the needs of the operation and business development of the Company. Details of attendance of the Board, the Audit Committee and the Remuneration Committee meetings are as follows:

| | Meetings attended/held | | |
|---|---|---|---|
| | **Board** | **Audit Committee** | **Remuneration Committee** |
| Mr. Tang Yiu *(Chairman)* | 2/5 | N/A | N/A |
| Mr. Sheng Baijiao *(Chief Executive Officer)* | 5/5 | N/A | 1/1 |
| Mr. Tang King Loy | 5/5 | N/A | N/A |
| Mr. Sheng Fang* | 2/2 | N/A | N/A |
| Mr. Yu Mingfang^ | 2/2 | N/A | N/A |
| Mr. Gao Yu# | 5/5 | N/A | N/A |
| Ms. Hu Xiaoling# | 5/5 | N/A | N/A |
| Mr. Ho Kwok Wah, George@ | 5/5 | 4/4 | N/A |
| Mr. Chan Yu Ling, Abraham@ | 4/5 | 3/4 | 1/1 |
| Dr. Xue Qiuzhi@ | 4/5 | 3/4 | 1/1 |

* *Appointed as an Executive Director effective from 26 May 2011*

^ *Resigned as an Executive Director effective from 24 March 2011*

# *Non-executive Directors*

@ *Independent Non-executive Directors*

The Board members have no financial, business, family or other material/relevant relationships with each other save that Mr. Tang Yiu is the father of Mr. Tang King Loy and Mr. Sheng Baijiao is an uncle of Mr. Sheng Fang. In the Board's opinion, this relationship does not affect the Directors' independent judgment and integrity in executing their roles and responsibilities. The Non-executive Directors and the Independent Non-executive Directors bring a variety of experience and expertise to the Company.

Each of the Independent Non-executive Directors has confirmed with the Company in writing his independence from the Company in accordance with Rule 3.13 of the Listing Rules. On this basis, the Company considers all Independent Non-executive Directors to be independent.

Biographical details of the Directors and senior management of the Company as at the date of this report are set out on pages 43 to 45 of this annual report.

Given the composition of the Board and the skills, knowledge and expertise that each Director brings to bear in its deliberations, the Board believes that it is appropriately structured to provide sufficient checks and balances to protect the interests of the Group and the shareholders. The Board will review its composition regularly to ensure that it has the appropriate balance of expertise, skills and experience to continue to effectively oversee the business of the Company.

## Appointment and Re-election of Directors

Prior to the establishment of the Nomination Committee of the Company on 17 March 2012, the full Board was involved in the appointment of new Directors. The Board took into consideration criteria such as expertise, experience, integrity and commitment when considering the appointment of new Directors. Currently, all Non-executive Directors and Independent Non-executive Directors are appointed for a specific term of three years.

In accordance with article 87 of the Company's articles of association, Mr. Tang Yiu (an Executive Director), Mr. Sheng Baijiao (an Executive Director) and Mr. Ho Kwok Wah, George (an Independent Non-executive Director) shall retire from office by rotation at the forthcoming annual general meeting. Mr. Tang Yiu, being eligible, offers himself for re-election as a Non-executive Director at the forthcoming annual general meeting. Mr. Tang Yiu will remain as Chairman of the Company. Mr. Sheng Baijiao and Mr. Ho Kwok Wah, George, being eligible, offer themselves for re-election as Directors at the forthcoming annual general meeting.

## Chairman and Chief Executive

The Chairman and the Chief Executive Officer of the Company are Mr. Tang Yiu and Mr. Sheng Baijiao respectively. The roles of the Chairman and Chief Executive Officer are segregated to assume a balance of authority and power. The Chairman is responsible for the leadership and effective running of the Board, while the Chief Executive Officer is delegated with the authorities to manage the business of the Group in all aspects effectively. The reasonable division of work under the laws ensures a definite division between power and obligations with clear-cut and efficient decisions and implementations by the Board and the management.

## Audit Committee

In accordance with Rule 3.21 of the Listing Rules and Section C.3 of the CG Code, the Company established the Audit committee on 27 April 2007 with written terms of reference. The Audit Committee comprises three Independent Non-executive Directors of the Company, namely, Mr. Ho Kwok Wah, George, Mr. Chan Yu Ling, Abraham and Dr. Xue Qiuzhi. The chairman of the Audit Committee is Mr. Ho Kwok Wah, George who has a professional qualification in accountancy.

The primary responsibilities of the Audit Committee include (but without limitation), assisting the Board to provide an independent review and supervision of the Group's financial reporting and to ensure the effectiveness of the financial reporting process, internal control and risk management system of the Group, to oversee the audit process and to perform other duties and responsibilities as delegated by the Board of the Company.

The Audit Committee met four times in the year of 2011. Major work completed by the Audit Committee during the year includes:

- reviewing the Group's annual report, interim financial information and annual financial statements;
- reviewing accounting policies adopted by the Group and issues related to accounting practice;
- reviewing the external auditor's qualifications, independence and performance;
- reviewing the external auditor's management letter and the management's response;
- assisting the Board to evaluate on the effectiveness of financial reporting procedures and internal control system; and
- advising on material event or drawing the attention of the management on related risks.

# CORPORATE GOVERNANCE REPORT

## Remuneration Committee

In accordance with Section B.1 of the CG Code, the Company established the Remuneration Committee on 27 April 2007 with written terms of reference. The Remuneration Committee has three members comprising Mr. Chan Yu Ling, Abraham, Mr. Sheng Baijiao and Dr. Xue Qiuzhi, two of whom are Independent Non-executive Directors. The chairman of the Remuneration Committee is Mr. Chan Yu Ling, Abraham.

The primary responsibilities of the Remuneration Committee include (but without limitation):

- making recommendations to the Board on the Group's remuneration policy and structure for Directors and senior management and on the establishment of a formal and transparent procedure for developing such policies;
- determining the terms of specific remuneration package of the Directors and senior management;
- reviewing and approving performance-based remuneration by reference to corporate goals and objectives resolved by the Directors from time to time; and
- considering and approving the grant of share options to eligible participants pursuant to the Share Option Scheme upon authorization by the Board of the Company.

The Remuneration Committee held one meeting during the year of 2011. The members of the Remuneration Committee reviewed the Group's remuneration policy for the year 2011 at the meeting.

## Nomination Committee

The Nomination Committee was established on 17 March 2012 with written terms of reference. The Nomination Committee has three members comprising Dr. Xue Qiuzhi, Mr. Sheng Baijiao and Mr. Chan Yu Ling, Abraham, two of whom are Independent Non-executive Directors. The chairman of the Nomination Committee is Dr. Xue Qiuzhi.

The primary responsibilities of the Nomination Committee include (but without limitation), considering and recommending to the Board suitably qualified persons to become members of the Board and reviewing the structure, size and composition of the Board on a regular basis and as and when required.

## Directors' and Auditor's Responsibilities for the Financial Statements

The Directors are responsible for overseeing the preparation of financial statements for each financial period to ensure that they give a true and fair view of the financial position of the Company and the Group, and of the Group's financial performance and cash flows for that period. The Company's financial statements are prepared in accordance with all relevant statutory requirements and applicable accounting standards. The Directors are responsible for ensuring that appropriate accounting policies are selected and applied consistently, and that judgments and estimates made are prudent and reasonable.

The statement by the auditor of the Company regarding their reporting responsibilities on the financial statements of the Group is set out in the Independent Auditor's Report on pages 46 and 47.

## Internal Control

The Board is responsible for maintaining sound and effective internal controls to safeguard the shareholders' investment and the Company's assets. The Board convenes meetings with the Audit Committee to conduct regular reviews of the effectiveness of the internal control system of the Company and the Group. In respect of the year ended 31 December 2011, the Board, through the Audit Committee, reviewed the overall effectiveness of the Group's internal control system, including the financial, operational and compliance controls, risk management functions, adequacy of resources, qualifications and experience of staff of the accounting and financial reporting function, and their training programmes and budget. The Directors are of the view that the existing system of internal control is effective and adequate to the Group.

## Remuneration Policy

The Group offers a competitive remuneration package to its employees, including mandatory retirement funds, insurance and medical coverage. In addition, discretionary bonus may be granted to eligible employees based on the Group's and individual's performance.

Details of the emoluments for Directors of the Company and five highest paid individuals for the year are set out in note 15 to the financial statements.

## Auditor's Remuneration

The remuneration charged by the Company's auditor, PricewaterhouseCoopers, and their affiliated firms, for its statutory audit, audit-related and non-audit services is set out below:

| | **2011**<br>***RMB million*** |
|---|---|
| Audit services | **9.2** |
| Audit-related services | **0.9** |
| Non-audit services (mainly tax compliance and advisory services) | **0.4** |
| Total | **10.5** |

## Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions of the Directors. Following specific enquiry, each of the Directors has confirmed compliance with the Model Code throughout the year ended 31 December 2011.

The Company has also adopted a Code of Conduct for Securities Transactions by Specified Employees to govern securities transactions of those employees who may possess or have access to price sensitive information.

# CORPORATE GOVERNANCE REPORT

## Social Responsibility

The Group is committed to being a successful and responsible corporate citizen. As such, we are committed not only to delivering quality products and service to our customers and strong and sustained financial performance to our shareholders. We are also committed to contributing to in the communities where we conduct business. We aim to achieve this by, amongst others, ensuring that the workers producing our products are treated with fairness and respect; and at all times achieving our goals through environmentally friendly means.

## Investor and Shareholder Relations

In the light of the good faith principle, the Company strictly complies with and performs according to the Listing Rules to disclose relevant information on a true, accurate, complete and timely basis and all other information that might have significant impact on the decisions of shareholders and other concerned parties in an active and timely manner. Also, the Company takes effort in ensuring all shareholders with equal access to information. As such, the Company has honestly performed its statutory obligation in respect of information disclosure.

Through results presentation, press conference, teleconference and investors' call-in enquiries and visits, the Company takes initiatives for agreeable communications with investors to enable them to have a clear and in-depth understanding of the Company's business environment, operating strategies and prospects, whereby their sense of identity was strengthened. In delivering information to investors, the Company also listens to their advice and collects the feedback from them, aiming to form an interactive and mutual beneficial relation with the Company's investors.

# BIOGRAPHICAL DATA OF DIRECTORS AND SENIOR MANAGEMENT

## Executive Directors

**Mr. Tang Yiu** ("Mr. Tang"), aged 77, is our Executive Director, Chairman of the Company and the founder of the Group. With over 30 years of experience in the footwear manufacturing industry, Mr. Tang is primarily responsible for the Group's overall strategic planning. He is currently the chairman of The Federation of Hong Kong Footwear Limited, a committee member of the Chinese People's Political Consultative Conference in the Sanshui District of Foshan in the PRC and a committee member of the Unified Association of Kowloon West Limited. Mr. Tang was a committee member of the China Trade Advisory Committee of Hong Kong Trade Development Council from 2007 to 2011. Mr. Tang has also been awarded with the Certificate of Foshan Honorary Citizenship by the Foshan Municipality in the PRC in November 2004. Mr. Tang is the father of Mr. Tang King Loy, an Executive Director. Mr. Tang also holds directorships in certain subsidiaries of the Company. Mr. Tang is also a director of Profit Leader Holdings Limited and Merry Century Investments Limited, both of which have an interest in the Shares and underlying Shares of the Company required to be disclosed to the Company under Part XV of the Securities and Futures Ordinance ("SFO"). Please refer to pages 32 to 34 for the disclosure of the interest in the Shares and underlying Shares of the Company of Mr. Tang, Profit Leading Holdings Limited and Merry Century Investments Limited under Part XV of the SFO.

**Mr. Sheng Baijiao** ("Mr. Sheng"), aged 59, is our Executive Director, the Chief Executive Officer and Acting Chairman of the Company. Mr. Sheng has joined the Group since 1991 and has over 20 years of experience in the footwear industry. Mr. Sheng is primarily responsible for the Group's overall strategic planning and the management of the Group's business. Prior to joining the Group, Mr. Sheng worked at the China Merchants Shekou Industrial Zone Light & Textile Industries Development Company (招商局蛇口工業區輕紡開發公司). Mr. Sheng is currently the vice chairman of the China Leather Industry Association (中國皮革工業協會) and the chairman of the Shenzhen Leather and Shoes Association (深圳皮革行業協會). Mr. Sheng is an uncle of Mr. Sheng Fang, an Executive Director. Mr. Sheng also holds directorships in certain subsidiaries of the Company. Mr. Sheng is indirectly interested in the issued share capital of Handy Limited, a shareholder of the Company, through a trust which Mr. Sheng is a founder and beneficiary. Mr. Sheng is also a director of Handy Limited. Please refer to pages 32 to 34 for the disclosure of the interest in the Shares and underlying Shares of the Company of Mr. Sheng and Handy Limited under Part XV of the CFO.

**Mr. Tang King Loy**, aged 41, is our Executive Director and Senior Vice President. Mr. Tang King Loy has joined the Group since 1999 and has over 10 years of experience in footwear industry. Mr. Tang King Loy is primarily responsible for implementation of decisions and policies in regard to the Group's overall business plan as approved by the Board of Directors and the Chief Executive Officer, as well as the management of footwear business. Mr. Tang King Loy graduated from The University of Hong Kong with a Bachelor's degree of science and a Master's degree in physics. He is currently an executive director and a vice president of The Federation of Hong Kong Footwear Limited. Mr. Tang King Loy has been appointed as one of the authorized representatives of the Company. Mr. Tang King Loy is a son of Mr. Tang, the Chairman and the Executive Director. Mr. Tang King Loy also holds directorships in certain subsidiaries of the Company.

**Mr. Sheng Fang**, aged 40, is our Executive Director and Senior Vice President. Mr. Sheng Fang has joined the Group since 2005 and has over 15 years of experience in the management of footwear retail business. Mr. Sheng Fang is primarily responsible for operation management of the Group's footwear retail business. Mr. Sheng Fang studied at Tongji University from 1989 to 1993, specializing in electrical engineering. He is currently a representative of the 14th People's Congress of Hongkou District, Shanghai, and a council member of College of Design and Innovation of Tongji University. Mr. Sheng Fang is a nephew of Mr. Sheng, the Chief Executive Officer, the Executive Director and Acting Chairman of the Company. Mr. Sheng Fang also holds directorships in certain subsidiaries of the Company.

# BIOGRAPHICAL DATA OF DIRECTORS AND SENIOR MANAGEMENT

## Non-executive Directors

**Mr. Gao Yu** ("Mr. Gao"), aged 38, is our Non-executive Director. Mr. Gao was appointed as a Director of the Company in August 2006. He is currently a managing director of the Private Equity Division of Morgan Stanley Asia Limited, primarily focusing on private equity investment activities in China, and a non-executive director of both China Dongxiang (Group) Co., Ltd. and Sparkle Roll Group Ltd, both being companies listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") and, a director of Tongkun Group Co., Ltd which is listed on Shanghai Stock Exchange. Prior to joining Morgan Stanley Asia Limited, he worked in Citigroup's Investment Banking Division in Asia for about 5 years. Mr. Gao has worked in Donaldson, Lufkin & Jenrette Inc's Debt Capital Markets Group in New York. Mr. Gao graduated from Stanford University with a Master's degree in engineering-economic systems and operations research as well as from Tsinghua University in Beijing(北京清華大學)with dual Bachelor's degrees in engineering and economics.

**Ms. Hu Xiaoling** ("Ms Hu"), aged 41, is our Non-executive Director. Ms. Hu was appointed as a Director of the Company in September 2005. She joined CDH Investments in 2002 and is currently a managing director of CDH Investments Management (Hong Kong) Limited. She is also a non-executive director of SYSWIN Inc., a Company listed on the New York Stock Exchange, and a non-executive director of SUNAC China Holdings Limited, a Company listed on the Main Board of the Hong Kong Stock Exchange. Ms. Hu is a director of Midea Group Co.,Ltd, Yingliu International Holdings Limited and Beijing Motie Book Co., Limited. Prior to joining CDH Investments Management (Hong Kong) Limited, Ms. Hu worked for the Private Equity Division of China International Capital Co., Limited and Arthur Anderson LLP. She is a fellow member of the Association of Chartered Certified Accountants. Ms. Hu graduated from Beijing Jiaotong University(北京交通大學), previously known as Northern Jiaotong University(北方交通大學), with a Master's degree in economics and accounting and Bachelor's degree in economics.

## Independent Non-executive Directors

**Mr. Ho Kwok Wah, George** ("Mr. Ho"), FCPA (Practising), aged 53, is our Independent Non-executive Director. Mr. Ho was appointed as a Director of the Company in October 2006. Mr. Ho has over 20 years of experience in accounting, auditing and financial management. He is currently a fellow member of the Association of Chartered Certified Accountants and Hong Kong Institute of Certified Public Accountants. From 2001 to 2003, Mr. Ho was the president of The Hong Kong Institute of Accredited Accounting Technicians. Mr. Ho is currently the proprietor of George K.W. Ho & Co., Certified Public Accountants. Mr. Ho is also currently a director of The Taxation Institute of Hong Kong and the Hong Kong Commerce and Industry Associations Limited and the Hong Kong Shatin Industries and Commerce Association Limited. Mr. Ho is currently an independent non-executive director and an audit committee member of Town Health International Holdings Limited, as well as an independent non-executive director, chairman of audit committee, and member of remuneration and nomination committee of Sundart International Holdings Limited, both being companies listed on the Main Board of the Hong Kong Stock Exchange.

**Mr. Chan Yu Ling, Abraham** ("Mr. Chan"), aged 51, is our Independent Non-executive Director. Mr. Chan was appointed as a Director of the Company in October 2006. Mr. Chan is a chartered engineer in the United Kingdom, a professional engineer in Ontario, Canada and is currently the Chairman of PuraPharm Corporation Limited. Mr. Chan is also currently a member of the Institution of Structural Engineers in the United Kingdom, Guangxi Zhuang Autonomous Region Committee of the Chinese People's Political Consultative Conference, the former President and Council Member of the Modernized Chinese Medicine International Association Limited, and a former member of Commission on Strategic Development (Commission Economic Development and Economic Cooperation with the Mainland) and part-time member of the Central Policy Unit of The Government of Hong Kong Special Administrative Region. Mr. Chan graduated from the University of Toronto in Canada with a Bachelor's degree in applied science in 1982.

# BIOGRAPHICAL DATA OF DIRECTORS AND SENIOR MANAGEMENT

**Dr. Xue Qiuzhi** ("Dr. Xue"), aged 60, is our Independent Non-executive Director. Dr. Xue was appointed as a Director of the Company in October 2006. Dr. Xue is currently an associate dean of the School of Management of Fudan University. Dr. Xue has been a professor of Management of Fudan University since 1996. Dr. Xue was the head of the Department of International Business Administration of Fudan University from 1993 to 1999, and the head of the Department of Business Administration at the same university from 1999 to 2003. Dr. Xue graduated from Wuhan University with a Bachelor's degree in economics in 1982 and obtained a Master's degree in political economics and a Doctoral degree in economics from the Universite Libre de Bruxelles in Belgium in 1984 and 1988, respectively.

## Senior Management

**Mr. Song Xiaowu** ("Mr. Song"), aged 47, is our deputy general manager who is primarily responsible for the production management of the Group. Mr. Song joined the Group in 1993 and has over 15 years of experience in the footwear production management. Mr. Song was also previously responsible for various production processes such as production, technology and quality control.

**Ms. Li Zhao** ("Ms. Li"), aged 54, is our deputy general manager who is primarily responsible for the sales division of our sportswear retail business. Ms. Li had joined the Group in 1995 and left the Group in 1997. She subsequently rejoined the Group in 2005. Prior to joining the Group, Ms. Li worked for Shekou Light & Textile Industries Industrial Development Company（蛇口輕紡工業開發公司）and China Textile Academy（中國紡織科學研究院）. Ms. Li graduated from Donghua University（東華大學）with a Bachelor's degree in textile mechanical engineering. Ms. Li also holds a Master's degree in business administration from Shanghai Maritime University（上海海運學院）and a Master of Business Administration for Senior Management from the Shanghai Jiaotong University（上海交通大學）.

## Company Secretary

**Mr. Leung Kam Kwan** ("Mr. Leung"), FCPA, aged 47, is our company secretary and the chief financial manager. Mr. Leung joined the Group in September 2004. Mr. Leung has over 20 years of experience in accounting, financial management and internal control. Prior to joining the Group, Mr. Leung had held various senior positions at listed companies in Hong Kong and had previously worked for KPMG. Mr. Leung graduated from City University of Hong Kong with a Bachelor's degree in accounting. He is also a fellow member of the Association of Chartered Certified Accountants and Hong Kong Institute of Certified Public Accountants, as well as a member of the Hong Kong Institute of Chartered Secretaries.

*Notes:*

1. The Directors' interests in Shares and underlying Shares of the Company, if any, within the meaning of Part XV of the SFO as at 31 December 2011 are disclosed in the section headed "Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures" in this report. Saved as disclosed above and in this annual report, none of the Directors has any other interest in Shares and underlying Shares within the meaning of Part XV of the SFO.

2. Save as disclosed in the Directors' respective biographical details under "Biographical Data of Directors and Senior Management" section, the Directors (i) have not held any directorships in other publicly listed companies, whether in Hong Kong or overseas, during the last three years; and (ii) do not have any other relationships with any Directors, senior management or substantial or controlling shareholders of the Company.

3. In accordance with article 87 of the Company's articles of association, Mr. Tang (an Executive Director), Mr. Sheng (an Executive Director) and Mr. Ho (an Independent Non-executive Director) shall retire from office by rotation at the forthcoming annual general meeting. Mr. Tang, being eligible, offers himself for re-election as a Non-executive Director at the forthcoming annual general meeting. Mr. Tang will remain as Chairman of the Company. Mr. Sheng and Mr. Ho, being eligible, offer themselves for re-election as Director at the forthcoming annual general meeting.

# INDEPENDENT AUDITOR'S REPORT

pwc 羅兵咸永道

**TO THE SHAREHOLDERS OF**
**BELLE INTERNATIONAL HOLDINGS LIMITED**
*(incorporated in the Cayman Islands with limited liability)*

We have audited the consolidated financial statements of Belle International Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 48 to 116, which comprise the consolidated and company balance sheets as at 31 December 2011, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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# INDEPENDENT AUDITOR'S REPORT

羅兵咸永道

## Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2011, and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

## Other Matters

This report, including the opinion, has been prepared for and only for you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

**PricewaterhouseCoopers**
*Certified Public Accountants*

Hong Kong, 20 March 2012

# CONSOLIDATED INCOME STATEMENT

## For the year ended 31 December 2011

| | Note | Year ended 31 December 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|---|
| **Revenue** | 5 | **28,944,704** | 23,705,890 |
| Costs of sales | | **(12,388,805)** | (10,497,527) |
| **Gross profit** | | **16,555,899** | 13,208,363 |
| Selling and distribution expenses | | **(9,212,787)** | (7,685,787) |
| General and administrative expenses | | **(2,192,438)** | (1,619,832) |
| Other income | 6 | **114,135** | 29,151 |
| Other gains | 7 | **—** | 30,608 |
| **Operating profit** | 8 | **5,264,809** | 3,962,503 |
| Finance income | | **224,122** | 164,325 |
| Finance costs | | **(18,762)** | (1,721) |
| Finance income, net | 9 | **205,360** | 162,604 |
| Share of profit of associates | 21 | **372** | — |
| | | **205,732** | 162,604 |
| **Profit before income tax** | | **5,470,541** | 4,125,107 |
| Income tax expense | 10 | **(1,232,087)** | (700,576) |
| **Profit for the year** | | **4,238,454** | 3,424,531 |
| **Attributable to:** | | | |
| Equity holders of the Company | 11 | **4,254,584** | 3,424,531 |
| Non-controlling interests | | **(16,130)** | — |
| | | **4,238,454** | 3,424,531 |
| **Earnings per share attributable to equity holders of the Company during the year** | 12 | | |
| – basic | | **RMB50.44 cents** | RMB40.60 cents |
| – diluted | | **RMB50.44 cents** | RMB40.60 cents |

The notes on pages 55 to 116 are an integral part of these consolidated financial statements.

Details of dividends payable to equity holders of the Company attributable to the profit for the year are set out in Note 13.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

| | Year ended 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| Profit for the year | **4,238,454** | 3,424,531 |
| Other comprehensive loss | | |
| Exchange differences | **(10,648)** | (30,227) |
| Other comprehensive loss for the year, net of tax | **(10,648)** | (30,227) |
| Total comprehensive income for the year | **4,227,806** | 3,394,304 |
| Attributable to: | | |
| Equity holders of the Company | **4,243,936** | 3,394,304 |
| Non-controlling interests | **(16,130)** | — |
| | **4,227,806** | 3,394,304 |

The notes on pages 55 to 116 are an integral part of these consolidated financial statements.

# CONSOLIDATED BALANCE SHEET

## As at 31 December 2011

| | | As at 31 December | |
|---|---|---|---|
| | | **2011** | 2010 |
| | *Note* | ***RMB'000*** | *RMB'000* |
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 16 | **2,851,579** | 2,353,665 |
| Land use rights | 17 | **817,745** | 628,632 |
| Investment properties | 18 | **10,971** | 11,682 |
| Intangible assets | 19 | **2,790,322** | 2,713,341 |
| Interests in associates | 21 | **61,572** | — |
| Long-term deposits and prepayments | 22 | **962,823** | 657,057 |
| Deferred income tax assets | 23 | **370,051** | 191,667 |
| Structured bank deposits | 26 | **—** | 102,228 |
| | | **7,865,063** | 6,658,272 |
| **Current assets** | | | |
| Inventories | 24 | **6,516,626** | 4,859,137 |
| Trade receivables | 25 | **2,745,918** | 2,119,676 |
| Deposits, prepayments and other receivables | 22 | **1,753,418** | 1,352,220 |
| Structured bank deposits | 26 | **3,369,112** | 2,732,177 |
| Term deposits with initial terms of over three months | 27 | **494,951** | 886,242 |
| Cash and cash equivalents | 28 | **2,886,759** | 2,172,532 |
| | | **17,766,784** | 14,121,984 |
| Non-current assets held for sale | 29 | **49,328** | 51,776 |
| | | **17,816,112** | 14,173,760 |
| **Total assets** | | **25,681,175** | 20,832,032 |

The notes on pages 55 to 116 are an integral part of these consolidated financial statements.

# CONSOLIDATED BALANCE SHEET

As at 31 December 2011

| | Note | As at 31 December 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|---|
| **EQUITY** | | | |
| **Capital and reserves attributable to equity holders of the Company** | | | |
| Share capital | 33 | **83,056** | 83,056 |
| Share premium | | **9,214,078** | 9,214,078 |
| Reserves | 34 | **10,126,549** | 7,817,667 |
| | | **19,423,683** | 17,114,801 |
| Non-controlling interests | | **170,093** | — |
| **Total equity** | | **19,593,776** | 17,114,801 |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Deferred income tax liabilities | 23 | **182,822** | 176,761 |
| Deferred income | | **74,983** | 80,024 |
| | | **257,805** | 256,785 |
| **Current liabilities** | | | |
| Trade payables | 30 | **1,248,261** | 1,105,766 |
| Other payables, accruals and other current liabilities | 31 | **1,324,851** | 961,700 |
| Short-term borrowings | 32 | **1,895,417** | 680,744 |
| Current income tax liabilities | | **1,361,065** | 712,236 |
| | | **5,829,594** | 3,460,446 |
| **Total liabilities** | | **6,087,399** | 3,717,231 |
| **Total equity and liabilities** | | **25,681,175** | 20,832,032 |
| **Net current assets** | | **11,986,518** | 10,713,314 |
| **Total assets less current liabilities** | | **19,851,581** | 17,371,586 |

**Tang Yiu**
*Director*

**Sheng Baijiao**
*Director*

The notes on pages 55 to 116 are an integral part of these consolidated financial statements.

# BALANCE SHEET

## As at 31 December 2011

| | Note | As at 31 December 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Interests in subsidiaries | 20 | **10,788,237** | 10,142,163 |
| **Current assets** | | | |
| Amounts due from subsidiaries | 20 | **3,629,526** | 3,271,071 |
| Prepayments | 22 | **539** | 539 |
| Cash and cash equivalents | 28 | **1,713** | 2,887 |
| | | **3,631,778** | 3,274,497 |
| **Total assets** | | **14,420,015** | 13,416,660 |
| **EQUITY** | | | |
| **Capital and reserves** | | | |
| Share capital | 33 | **83,056** | 83,056 |
| Share premium | 33 | **9,331,889** | 9,331,889 |
| Reserves | 34 | **2,332,890** | 2,373,131 |
| **Total equity** | | **11,747,835** | 11,788,076 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Amounts due to subsidiaries | 20 | **2,668,804** | 1,624,063 |
| Other payables and accruals | 31 | **3,376** | 4,521 |
| **Total liabilities** | | **2,672,180** | 1,628,584 |
| **Total equity and liabilities** | | **14,420,015** | 13,416,660 |
| **Net current assets** | | **959,598** | 1,645,913 |
| **Total assets less current liabilities** | | **11,747,835** | 11,788,076 |

**Tang Yiu**
*Director*

**Sheng Baijiao**
*Director*

The notes on pages 55 to 116 are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

## For the year ended 31 December 2011

| | Capital and reserves attributable to equity holders of the Company | | | | | | | | Non-controlling interests | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital | Share premium | Merger reserve | Statutory reserves | Capital redemption reserve | Exchange reserve | Retained earnings | Subtotal | | |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | *(Note 33)* | | *(Note 34(b))* | *(Note 34(c))* | | | | | | |
| **For the year ended 31 December 2011** | | | | | | | | | | |
| **As at 1 January 2011** | **83,056** | **9,214,078** | **3,531** | **407,895** | **70** | **(50,425)** | **7,456,596** | **17,114,801** | **—** | **17,114,801** |
| Comprehensive income: | | | | | | | | | | |
| Profit for the year | **—** | **—** | **—** | **—** | **—** | **—** | **4,254,584** | **4,254,584** | **(16,130)** | **4,238,454** |
| Other comprehensive loss: | | | | | | | | | | |
| Exchange differences | **—** | **—** | **—** | **—** | **—** | **(10,648)** | **—** | **(10,648)** | **—** | **(10,648)** |
| Total comprehensive income for the year | **—** | **—** | **—** | **—** | **—** | **(10,648)** | **4,254,584** | **4,243,936** | **(16,130)** | **4,227,806** |
| Dividends | **—** | **—** | **—** | **—** | **—** | **—** | **(1,939,873)** | **(1,939,873)** | **—** | **(1,939,873)** |
| Acquisition of subsidiaries *(Note 37)* | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **19,035** | **19,035** |
| Transactions with non-controlling interests | **—** | **—** | **—** | **—** | **—** | **—** | **4,819** | **4,819** | **167,188** | **172,007** |
| Transfer to reserves | **—** | **—** | **—** | **157,677** | **—** | **—** | **(157,677)** | **—** | **—** | **—** |
| | **—** | **—** | **—** | **157,677** | **—** | **—** | **(2,092,731)** | **(1,935,054)** | **186,223** | **(1,748,831)** |
| **As at 31 December 2011** | **83,056** | **9,214,078** | **3,531** | **565,572** | **70** | **(61,073)** | **9,618,449** | **19,423,683** | **170,093** | **19,593,776** |
| For the year ended 31 December 2010 | | | | | | | | | | |
| As at 1 January 2010 | 83,056 | 9,214,078 | 3,531 | 407,895 | 70 | (20,198) | 5,634,569 | 15,323,001 | — | 15,323,001 |
| Comprehensive income: | | | | | | | | | | |
| Profit for the year | — | — | — | — | — | — | 3,424,531 | 3,424,531 | — | 3,424,531 |
| Other comprehensive loss: | | | | | | | | | | |
| Exchange differences | — | — | — | — | — | (30,227) | — | (30,227) | — | (30,227) |
| Total comprehensive income for the year | — | — | — | — | — | (30,227) | 3,424,531 | 3,394,304 | — | 3,394,304 |
| Dividends | — | — | — | — | — | — | (1,602,504) | (1,602,504) | — | (1,602,504) |
| | — | — | — | — | — | — | (1,602,504) | (1,602,504) | — | (1,602,504) |
| As at 31 December 2010 | 83,056 | 9,214,078 | 3,531 | 407,895 | 70 | (50,425) | 7,456,596 | 17,114,801 | — | 17,114,801 |

The notes on pages 55 to 116 are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2011

| | | Year ended 31 December | |
|---|---|---|---|
| | | **2011** | 2010 |
| | *Note* | ***RMB'000*** | *RMB'000* |
| **Cash flows from operating activities** | | | |
| Net cash generated from operations | 35(a) | **3,802,700** | 3,049,876 |
| PRC income tax paid | | **(757,438)** | (389,060) |
| Hong Kong profits tax paid | | **(6,922)** | (8,468) |
| Macau income tax paid | | **(7,084)** | (3,454) |
| Net cash generated from operating activities | | **3,031,256** | 2,648,894 |
| **Cash flows from investing activities** | | | |
| Capital contribution to associates | 21 | **(61,200)** | — |
| Acquisition of subsidiaries | 37 | **(87,000)** | — |
| Payments and deposits for purchase of property, plant and equipments | | **(1,664,430)** | (1,197,975) |
| Payments and deposits for purchase of intangible assets and land use rights | | **(32,976)** | (40,587) |
| Proceeds from sale of non-current assets held for sale | 35(b) | **—** | 592,637 |
| Proceeds from sale of property, plant and equipment | 35(b) | **5,352** | 13,749 |
| Placement of structured bank deposits | | **(3,075,000)** | (2,800,000) |
| Uplift of structured bank deposits | | **2,600,000** | 1,785,000 |
| Decrease in term deposits with initial terms of over three months | | **393,333** | 1,414,758 |
| Net cash used in investing activities | | **(1,921,921)** | (232,418) |
| **Cash flows from financing activities** | | | |
| Dividends paid | | **(1,939,873)** | (1,602,504) |
| Interest received | | **131,913** | 113,814 |
| Interest paid | | **(18,762)** | (1,721) |
| Contribution from non-controlling interests | | **167,720** | — |
| Proceeds from borrowings | | **1,447,415** | 1,021,539 |
| Repayments of borrowings | | **(170,187)** | (330,436) |
| Repayments of bills of exchange | | **—** | (1,115,253) |
| Net cash used in financing activities | | **(381,774)** | (1,914,561) |
| **Net increase in cash and cash equivalents** | | **727,561** | 501,915 |
| Cash and cash equivalents at beginning of the year | | **2,172,532** | 1,690,548 |
| Effect on foreign exchange | | **(13,334)** | (19,931) |
| **Cash and cash equivalents at end of the year** | | **2,886,759** | 2,172,532 |

The notes on pages 55 to 116 are an integral part of these consolidated financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1 Organization and principal activities

Belle International Holdings Limited (the "Company") and its subsidiaries (collectively, the "Group") are principally engaged in the manufacturing, distribution and retailing of shoes and footwear products; and the sales of sportswear products. The Group has manufacturing plants in the People's Republic of China (the "PRC") for the production of shoes and footwear products, and sells mainly in the PRC, Hong Kong and Macau.

The Company was incorporated in the Cayman Islands on 19 May 2004 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of its registered office is Scotia Centre, 4th Floor, P.O. Box 2804, George Town, Grand Cayman, Cayman Islands.

The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

These consolidated financial statements are presented in Renminbi ("RMB"), unless otherwise stated, and have been approved for issue by the Board of Directors on 20 March 2012.

## 2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### 2.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The consolidated financial statements have been prepared under the historical cost convention except that certain financial assets and financial liabilities are measured at fair value, as appropriate.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

#### (a) Effect of adopting amendments to standards and interpretations

The following amendments to standards and interpretations are mandatory for accounting periods beginning on or after 1 January 2011. The adoption of these amendments to standards and interpretations does not have any significant impact to the results and financial position of the Group.

| | |
|---|---|
| IFRSs (amendment) | Improvements to IFRSs 2010 |
| IFRS 1 (amendment) | Limited exemption from comparative IFRS 7 disclosures for first-time adopters |
| IAS 24 (revised) | Related party disclosures |
| IAS 32 (amendment) | Classification of rights issues |
| IFRIC Int 14 (amendment) | Prepayments of a minimum funding requirement |
| IFRIC Int 19 | Extinguishing financial liabilities with equity instruments |

## 2 Summary of significant accounting policies (continued)

### 2.1 Basis of preparation (continued)

#### (b) New standards, amendments to standards and interpretation that have been issued but are not effective

The following new standards, amendments to standards and interpretation have been issued but are not effective in 2011 and have not been early adopted:

| | |
|---|---|
| IFRS 1 (amendment) | Severe hyperinflation and removal of fixed dates for first-time adopters [(1)] |
| IFRS 7 (amendment) | Disclosures - transfers of financial assets [(1)] |
| IFRS 7 (amendment) | Disclosures - offsetting financial assets and financial liabilities [(2)] |
| IFRS 7 (amendment) | Mandatory effective date of IFRS 9 and transition disclosures [(4)] |
| IFRS 9 | Financial instruments [(4)] |
| Additions to IFRS 9 | Financial instruments - financial liabilities [(4)] |
| IFRS 10 | Consolidated financial statements [(2)] |
| IFRS 11 | Joint arrangements [(2)] |
| IFRS 12 | Disclosure of interests in other entities [(2)] |
| IFRS 13 | Fair value measurements [(2)] |
| IAS 1 (amendment) | Presentation of financial statements [(2)] |
| IAS 12 (amendment) | Deferred tax: recovery of underlying assets [(1)] |
| IAS 19 (2011) | Employee benefits [(2)] |
| IAS 27 (2011) | Separate financial statements [(2)] |
| IAS 28 (2011) | Investments in associates and joint ventures [(2)] |
| IAS 32 (amendment) | Offsetting financial assets and financial liabilities [(3)] |
| IFRIC Int 20 | Stripping costs in the production phase of a surface mine [(2)] |

(1) Effective for the Group for annual period beginning on 1 January 2012.
(2) Effective for the Group for annual period beginning on 1 January 2013.
(3) Effective for the Group for annual period beginning on 1 January 2014.
(4) Effective for the Group for annual period beginning on 1 January 2015.

The directors anticipate that the adoption of these new standards, amendments to standards and interpretation will not result in a significant impact on the results and financial position of the Group.

## 2 Summary of significant accounting policies (continued)

### 2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to 31 December.

#### (a) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. The Group also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control. De-facto control may arise from circumstances such as enhanced minority rights or contractual terms between shareholders, etc.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Inter-company transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognized in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognizes any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of acquiree's identifiable net assets.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss.

## 2 Summary of significant accounting policies (continued)

### 2.2 Consolidation (continued)

#### (b) Transactions with non-controlling interests

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions - that is, as transactions with the owners in their capacity as owners. The difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

#### (c) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognized at cost, and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investment in associates includes goodwill identified on acquisition.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of post-acquisition profit or loss is recognized in the income statement, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognized in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

## 2 Summary of significant accounting policies (continued)

### 2.2 Consolidation (continued)

#### (d) Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment, if any. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

### 2.3 Foreign currency translation

#### (a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). These consolidated financial statements are presented in RMB, which is the Company's functional and presentation currency.

#### (b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

#### (c) Group companies

The results and financial position of all the Group's entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(iii) all resulting exchange differences are recognized in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2 Summary of significant accounting policies (continued)

### 2.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker ("CODM"). The CODM who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors of the Company that make strategic decisions.

### 2.5 Property, plant and equipment

Property, plant and equipment other than construction-in-progress are stated at historical cost less accumulated depreciation and accumulated impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Leasehold land classified as finance lease commences amortization from the time when the land interest becomes available for its intended use. Amortization on leasehold land classified as finance lease and depreciation on other assets is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

| | |
|---|---|
| Leasehold land classified as finance lease | Shorter of remaining lease term of 30-70 years or useful life |
| Buildings | 20-40 years |
| Leasehold improvements | 1-5 years |
| Plant and equipment | 10 years |
| Furniture and fixtures and other equipment | 3-5 years |
| Motor vehicles | 5 years |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

The gains or losses on disposals of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant assets, and is recognized in the income statement.

## 2 Summary of significant accounting policies (continued)

### 2.6 Construction-in-progress

Construction-in-progress represents buildings, plant and machinery under construction and pending installation and is stated at cost less accumulated impairment losses, if any. Cost includes the costs of construction of buildings, the costs of plant and machinery and, for qualifying assets, borrowing costs capitalized in accordance with the Group's accounting policy. No provision for depreciation is made on construction-in-progress until such time as the relevant assets are completed and ready for intended use. When the assets concerned are brought to use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated in Note 2.5 above.

### 2.7 Land use rights

Land use rights are stated at cost less accumulated amortization and accumulated impairment losses, if any. Cost represents consideration paid for the rights to use the land on which various plants and buildings are situated for a period from 37 to 50 years. Amortization of land use rights is calculated on a straight-line basis over the period of leases.

### 2.8 Investment properties

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the companies in the Group, is classified as investment property.

Investment property is carried at cost, including the related transaction costs, less accumulated depreciation and accumulated impairment losses, if any.

Depreciation is provided using the straight-line method to write off the cost of the investment properties over their estimated useful lives of 35 to 40 years. Where the carrying amount of an investment property is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repair and maintenance costs are expensed in the income statement during the financial period in which they are incurred.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, and its carrying amount at the date of reclassification becomes its cost for accounting purposes.

## 2 Summary of significant accounting policies (continued)

### 2.9 Intangible assets

#### (a) Goodwill

Goodwill arises on the acquisition of subsidiaries and associates and represents the excess of the consideration transferred over the Group's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognized immediately as an expense and is not subsequently reversed.

#### (b) Acquired distribution and license contracts

Distribution and license contracts acquired in a business combination are recognized initially at fair value at the acquisition date and subsequently carried at the amount initially recognized less accumulated amortization and impairment losses, if any. Amortization is calculated using the straight-line method to allocate the costs of acquired distribution and license contracts over their estimated useful lives of 1 to 13 years.

#### (c) Acquired trademarks

Separately acquired trademarks are carried at cost less accumulated amortization and accumulated impairment losses, if any. Trademarks acquired in a business combination are recognized initially at fair value at the acquisition date and subsequently carried at the amount initially recognized less accumulated amortization and accumulated impairment losses, if any. Amortization of trademarks that have definite useful lives is calculated using the straight-line method to allocate the costs of acquired trademarks over their estimated useful lives of 10 to 30 years.

#### (d) Computer software

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring the specific software into usage. These costs are amortized over their estimated useful lives of 5 years. Cost associated with developing or maintaining computer software programmes are recognized as an expense as incurred.

Computer software development costs recognized as assets are amortized over their estimated useful lives of not exceeding 5 years.

## 2 Summary of significant accounting policies (continued)

### 2.10 Impairment of non-financial assets

Assets that have an indefinite useful life or are not yet available for use are not subject to amortization/depreciation and are at least tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

### 2.11 Non-current assets held for sale

Non-current assets are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.

### 2.12 Inventories

Inventories, comprise raw materials, work-in-progress, finished goods and consumables, are stated at the lower of cost and net realizable value. Cost is determined by the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

### 2.13 Receivables

Receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original term of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognized in the income statement within administrative expenses. When a receivable is uncollectible, it is written off against the allowance account for receivables. Subsequent recoveries of amounts previously written off are credited against administrative expenses in the income statement. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

## 2 Summary of significant accounting policies (continued)

### 2.14 Financial assets

#### (a) Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of the Group's financial assets at initial recognition.

*(i) Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

*(ii) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets. The Group's loans and receivables include trade receivables, structured bank deposits, term deposits, cash and cash equivalents and other receivables in the consolidated balance sheet.

*(iii) Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of the investment within 12 months of the end of the reporting period.

As at 31 December 2010 and 2011, the Group did not hold any significant financial assets at fair value through profit or loss or available-for-sale financial assets.

## 2 Summary of significant accounting policies (continued)

### 2.14 Financial assets (continued)

#### (b) Recognition and measurement

Loans and receivables are recognized initially at fair value and subsequently carried at amortized cost using the effective interest method.

#### (c) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

#### (d) Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loan and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount of the asset is reduced and the amount of the loss is recognized in the income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in the income statement.

## 2 Summary of significant accounting policies (continued)

### 2.15 Cash and cash equivalents

Cash and cash equivalents include cash in hand and deposits held at call with banks with original maturities of three months or less.

### 2.16 Financial liabilities and equity

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. Financial liabilities (including trade payables) are initially measured at fair value, and are subsequently measured at amortized cost, using the effective interest method. An equity instrument is any contract that does not meet the definition of financial liability and evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Ordinary shares are classified as equity. Incremental costs, net of tax, directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

### 2.17 Borrowings and borrowing costs

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

General and specific 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. All other borrowing costs are charged to the income statement in the period in which they are incurred.

## 2 Summary of significant accounting policies (continued)

### 2.18 Current and deferred income tax

The income tax expense for the year comprises current and deferred income tax. Income tax is recognized in the income statement, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case the tax is also recognized in other comprehensive income or directly in equity respectively.

#### (a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the places where the Group operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the relevant tax authorities.

#### (b) Deferred income tax

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for consolidated financial reporting purposes. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or a liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

#### (c) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

## 2 Summary of significant accounting policies (continued)

### 2.19 Employee benefits

#### (a) Pension obligations

The Group participates in various defined contribution retirement benefit plans which are available to all relevant employees. These plans are generally funded through payments to schemes established by governments or trustee-administered funds. A defined contribution plan is a pension plan under which the Group pays contributions on a mandatory, contractual or voluntary basis into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The Group's contributions to the defined contribution plans are expensed as incurred and not reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions.

#### (b) Employee leave entitlements

Employee entitlements to annual leave are recognized when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognized until the time of leave.

#### (c) Bonus entitlements

The expected cost of bonus payments is recognized as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made. Liabilities of bonus plan are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

### 2.20 Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligations using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

## 2 Summary of significant accounting policies (continued)

### 2.21 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease. For a component of the lease payment which is not fixed but is based on future amount of a factor, other than the passage of time, such as percentage of sales or concessionaire fees, the amount is recognized as expenses as it arises.

When assets are leased out under an operating lease, the asset is included in the balance sheet based on the nature of asset.

### 2.22 Government incentives

Incentives from the government are recognized at their fair value where there is a reasonable assurance that the incentives will be received and the Group will comply with all attached conditions.

Government incentives relating to costs are deferred and recognized in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Government incentives relating to property, plant and equipment and projects are included in non-current liabilities as deferred income and are credited to the income statement on a straight-line basis over the expected lives of the related assets and projects.

### 2.23 Financial guarantee contract liabilities

Financial guarantee contract liabilities are measured initially at their fair values and are subsequently measured at the higher of (i) the amount initially recognized less, where appropriate, cumulative amortization recognized in the income statement over the period of the relevant liabilities and (ii) the amount of which the Group is obliged to reimburse the recipient under the financial guarantee contracts.

## 2 Summary of significant accounting policies (continued)

### 2.24 Revenue and income recognition

Revenue comprises the fair value of the consideration received or receivable for the sales of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts, and after eliminating sales within the Group.

The Group recognizes revenue when the amount of revenue can be reliably measured and it is probable that future economic benefits will flow to the Group. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement. Revenue and income are recognized as follows:

(a) Sales of goods

Revenue from the sales of goods is recognized when the risk and reward of the goods have been transferred to the customer, which is usually at the time when a group entity has delivered products to the customer, the customer has accepted the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Accumulated experience is used to estimate and provide for sales returns at the time of sale.

(b) Commissions from concessionaire sales are recognized upon the sales of goods by the relevant retail outlets.

(c) Interest income is recognized using the effective interest method.

(d) Rental income under operating leases is recognized on a straight-line basis over the lease periods.

### 2.25 Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Company's and the Group's financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

## 3 Financial risk management

### 3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks, including foreign exchange risk, cash flow and fair value interest rate risks, credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. The use of financial derivatives to manage certain risk exposures is governed by the Group's policies approved by the Board of Directors of the Company.

#### (a) Foreign exchange risk

The Group mainly operates in the PRC with most of the transactions settled in RMB. The Group also has retail operations in Hong Kong and Macau, of which foreign exchange risk is considered insignificant. Foreign exchange risk arises when future commercial transactions or recognized assets or liabilities are denominated in a currency that is not the entity's functional currency. The Group is exposed to foreign exchange risk from various currency exposures, primarily with respect to Hong Kong Dollars ("HK$") and the United States Dollars ("US$").

The Group manages its foreign exchange risk by performing regular reviews of the Group's net foreign exchange exposures and may enter into certain forward foreign exchange contracts, when necessary, to manage its exposure against HK$ and US$ to mitigate the impact on exchange rate fluctuations. During the years ended 31 December 2010 and 2011, no forward foreign exchange contracts had been entered into by the Group.

The Group's assets and liabilities, and transactions arising from its operations do not expose the Group to material foreign exchange risk as the Group's assets and liabilities are primarily denominated in the respective group companies' functional currency.

As at 31 December 2011, if RMB has strengthened or weakened by 5% against HK$ with all other variables held constant, profit for the year would have been RMB 79,758,000 (2010: RMB 30,425,000) higher/lower, mainly as a result of foreign exchange gains/losses in translation of HK$ denominated receivables, cash and cash equivalents, payables and borrowings.

## 3 Financial risk management (continued)

### 3.1 Financial risk factors (continued)

#### (b) Cash flow and fair value interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates and the Group has no significant interest-bearing assets except for the cash at banks and certain structured bank deposits and term deposits, details of which have been disclosed in Notes 26 to 28. The Group's exposure to changes in interest rates is also attributable to its borrowings, details of which have been disclosed in Note 32. Borrowings carry at floating rates expose the Group to cash flow interest-rate risk whereas those carry at fixed rates expose the Group to fair value interest-rate risk. The Group's borrowings were carried at floating rates and expose the Group to cash flow interest rate risk while the Group's structured bank deposits and term deposits with initial terms of over three months were all carried at fixed rates. The Group has not used any interest rate swaps to hedge its exposure against cash flow interest rate risks. As at 31 December 2011, if interest rate has increased/ decreased by 100 basis points with all other variables held constant, profit for the year would have been RMB18,954,000 (2010: RMB6,807,000) lower/higher, mainly as a result of increase/decrease in interest expenses on borrowings.

#### (c) Credit risk

The Group has no significant concentrations of credit risk. The carrying amounts of trade and other receivables, cash at banks, structured and term deposits with banks, and rental deposits included in the consolidated balance sheet represent the Group's maximum exposure to credit risk in relation to its financial assets.

The Group has policies in place to ensure that sales of products on credit terms are made to customers with an appropriate credit history and the Group performs periodic credit evaluations of its customers. The Group's concessionaire sales through department stores are generally collectible within 30 days from the invoice date while credit sales are generally on credit terms within 30 days. Normally the Group does not require collaterals from trade debtors. The existing debtors have no significant defaults in the past. The Group's historical experience in collection of trade and other receivables falls within the recorded allowances and the directors are of the opinion that no provision for uncollectible receivables is required.

The Group also makes deposits (current and non-current) for rental of certain of its retail outlets with the relevant landlords. Management does not expect any loss arising from non-performance by these counterparties.

As at 31 December 2010 and 2011, substantially all the bank balances, structured and term deposits with banks as detailed in Notes 26 to 28 are held in major financial institutions located in Hong Kong and the PRC, which management believes are of high credit quality. The Group has a policy to limit the amount of credit exposure to any financial institution and management does not expect any loss arising from non-performance by these counterparties.

As at 31 December 2010 and 2011, the Company provides certain corporate guarantee to the bank for the banking facilities granted to its subsidiaries, details of which have been disclosed in Note 32.

## 3 Financial risk management (continued)

### 3.1 Financial risk factors (continued)

#### (d) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents and the availability of funding through an adequate amount of committed credit facilities.

The Group's primary cash requirements have been for additions of and upgrades on property, plant and equipment, payment on related debts and payment for purchases and operating expenses. The Group also used cash as consideration for settlement of its acquisition of businesses. The Group finances its acquisitions and working capital requirements through a combination of internal resources and bank borrowings, as necessary.

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure it maintains sufficient cash and cash equivalents and has available funding through adequate amount of committed credit facilities to meet its working capital requirements.

The table below analyzes the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

| | Group | | | |
|---|---|---|---|---|
| | Within 1 year | Between 1 to 5 years | Over 5 years | Total |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| As at 31 December 2011 | | | | |
| Trade payables | **1,248,261** | — | — | **1,248,261** |
| Short-term borrowings | **1,913,290** | — | — | **1,913,290** |
| Other payables, accruals and other current liabilities | **1,043,532** | — | — | **1,043,532** |
| | **4,205,083** | — | — | **4,205,083** |
| As at 31 December 2010 | | | | |
| Trade payables | 1,105,766 | — | — | 1,105,766 |
| Short term borrowings | 681,346 | — | — | 681,346 |
| Other payables, accruals and other current liabilities | 688,518 | — | — | 688,518 |
| | 2,475,630 | — | — | 2,475,630 |

As at 31 December 2010 and 2011, the Company's financial liabilities are all due for settlement contractually within 12 months. The Company also provides certain corporate guarantee to the banks for the banking facilities granted to its subsidiaries, details of which have been disclosed in Note 32.

## 3 Financial risk management (continued)

### 3.2 Fair value estimation

As at 31 December 2010 and 2011, the Group and the Company did not have any financial assets or financial liabilities in the balance sheet which is measured at fair value.

The carrying amounts of the Group's financial assets, including cash and cash equivalents, structured bank deposits, term deposits with initial terms of over three months, trade receivables, other receivables, and rental and other deposits; and the Group's financial liabilities, including trade payables, short-term borrowings, other payables, accruals and other current liabilities, approximate their fair values due to their short maturities.

The nominal values less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

### 3.3 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions. In order to maintain or adjust the capital structure, the Group may adjust the dividend payments to shareholders or obtain new bank borrowings. The Group's strategy is to maintain a solid capital base to support the operations and development of its business in the long term.

The Group also monitors capital on the basis of gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including current and non-current borrowings as shown in the consolidated balance sheet) less structured bank deposits (including current and non-current structured bank deposits as shown in the consolidated balance sheet), term deposits with initial terms of over three months and cash and cash equivalents. Total capital is calculated as "equity", as shown in the consolidated balance sheet, plus net debt.

As at 31 December 2011, the Group has a net cash position as the aggregate balances of structured bank deposits, term deposits with initial terms of over three months and cash and cash equivalents exceeded the total balance of borrowings by RMB4,855,405,000 (2010: RMB5,212,435,000).

## 4 Critical accounting estimates and judgments

Estimates and judgments used in preparing the financial statements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

### (a) Useful lives, residual values and depreciation charges of property, plant and equipment/ useful lives and amortization of intangible assets

The Group's management determines the estimated useful lives, residual values and related depreciation/amortization charges for the Group's property, plant and equipment and intangible assets with reference to the estimated periods that the Group intends to derive future economic benefits from the use of these assets. Management will revise the depreciation and amortization charges where useful lives are different to that of previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives and actual residual values may differ from estimated residual values. Periodic review could result in a change in depreciable lives and residual values and therefore depreciation/amortization expense in future periods.

### (b) Impairment of non-financial assets

The Group tests annually whether goodwill has suffered any impairment (Note 19). Other non-financial assets including property, plant and equipment, land use rights and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts have been determined based on value-in-use calculations or fair value less costs to sell. These calculations require the use of judgments and estimates.

Management judgment is required in the area of asset impairment particularly in assessing: (i) whether an event has occurred that may indicate that the related asset values may not be recoverable; (ii) whether the carrying value of asset can be supported by the recoverable amount, being the higher of fair value less costs to sell and net present value of future cash flows which are estimated based upon the continued use of the asset in the business; and (iii) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management in assessing impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test and as a result affect the Group's financial condition and results of operations. If there is a significant adverse change in the projected performance and the resulting future cash flow projections, it may be necessary to take an impairment charge to the income statement.

### (c) Net realizable value of inventories

Net realizable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of changes in customer taste and competitor actions in response to severe industry cycle. Management reassesses these estimates at each balance sheet date.

## 4 Critical accounting estimates and judgments (continued)

### (d) Trade and other receivables

The Group's management determines the provision for impairment of trade and other receivables based on an assessment of the recoverability of the receivables. The assessment is based on the credit history of its customers and other debtors and the current market condition, and requires the use of judgments and estimates. Management reassesses the provision at each balance sheet date.

### (e) Current and deferred income tax

The Group is subject to income taxes in the PRC and other jurisdictions. Judgment is required in determining the provision for income taxes in each of these jurisdictions. There are transactions and calculations during the ordinary course of business for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred income tax provisions in the period in which such determination is made.

Deferred income tax assets relating to certain temporary differences and tax losses are recognized when management considers it is probable that future taxable profits will be available against which the temporary differences or tax losses can be utilized. When the expectation is different from the original estimate, such differences will impact the recognition of deferred income tax assets and taxation charges in the period in which such estimate is changed.

## 5 Segment information

The Group is principally engaged in the manufacturing, distribution and retailing of shoes and footwear products, and the sales of sportswear products.

CODM has been identified as the executive directors. CODM reviews the Group's internal reporting in order to assess performance and allocate resources. CODM has determined the operating segments based on these reports.

CODM assesses the performance of the business from a product perspective, i.e. by shoes and footwear products and sportswear products.

CODM assesses the performance of the operating segments based on a measure of the results of reportable segments. Finance income and costs, corporate income and expenses, and amortization of intangible assets are not included in the results for each operating segment that is reviewed by the CODM. Other information provided to the CODM is measured in a manner consistent with that in the financial statements.

Revenue from external customers are after elimination of inter-segment revenue. Sales between segments are carried out at mutually agreed terms. The revenue from external parties reported to the CODM is measured in a manner consistent with that in the consolidated income statement.

Assets of reportable segments exclude deferred income tax assets, investment properties, interests in associates, non-current assets held for sale and corporate assets (including certain corporate property, plant and equipment, cash and bank balances, term deposits and structured bank deposits), all of which are managed on a central basis. Liabilities of reportable segments exclude current and deferred income tax liabilities, borrowings and corporate liabilities. These are part of the reconciliation to total balance sheet assets and liabilities.

## 5 Segment information (continued)

| | Year ended 31 December 2011 | | | | |
|---|---|---|---|---|---|
| | Shoes and footwear products *RMB'000* | Sportswear products *RMB'000* | Total reportable segments *RMB'000* | Unallocated *RMB'000* | Total *RMB'000* |
| **Revenue** | | | | | |
| Sales of goods | 18,532,557 | 10,345,534 | 28,878,091 | — | 28,878,091 |
| Commissions from concessionaire sales | — | 66,613 | 66,613 | — | 66,613 |
| | 18,532,557 | 10,412,147 | 28,944,704 | — | 28,944,704 |
| **Results of reportable segments** | 4,679,368 | 676,440 | 5,355,808 | — | 5,355,808 |
| **Reconciliation of results of reportable segments to profit for the year** | | | | | |
| **Results of reportable segments** | | | | | 5,355,808 |
| Amortization of intangible assets | | | | | (53,177) |
| Unallocated income | | | | | 4,203 |
| Unallocated expenses | | | | | (42,025) |
| **Operating profit** | | | | | 5,264,809 |
| Finance income | | | | | 224,122 |
| Finance costs | | | | | (18,762) |
| Share of profit of associates | | | | | 372 |
| **Profit before income tax** | | | | | 5,470,541 |
| Income tax expense | | | | | (1,232,087) |
| **Profit for the year** | | | | | 4,238,454 |
| **Other segment information** | | | | | |
| Depreciation on property, plant and equipment | 456,092 | 221,354 | 677,446 | 16,051 | 693,497 |
| Amortization of land use rights | 8,270 | 7,454 | 15,724 | — | 15,724 |
| Amortization of intangible assets | 52,749 | 428 | 53,177 | — | 53,177 |
| Depreciation on investment properties | — | — | — | 711 | 711 |
| Write-off of property, plant and equipment | 4,413 | 1,853 | 6,266 | — | 6,266 |
| Impairment losses of inventories | 26,655 | — | 26,655 | — | 26,655 |
| Additions to non-current assets | 943,814 | 333,419 | 1,277,233 | 420,173 | 1,697,406 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 5 Segment information (continued)

| | As at 31 December 2011 | | | | |
|---|---|---|---|---|---|
| | Shoes and footwear products *RMB'000* | Sportswear products *RMB'000* | Total reportable segments *RMB'000* | Unallocated *RMB'000* | Total *RMB'000* |
| Segment assets | **12,737,597** | **6,361,570** | **19,099,167** | **—** | **19,099,167** |
| Goodwill | **1,710,341** | **485,261** | **2,195,602** | **—** | **2,195,602** |
| Other intangible assets | **594,263** | **457** | **594,720** | **—** | **594,720** |
| Inter-segment balances elimination | **(2,168,329)** | **—** | **(2,168,329)** | **—** | **(2,168,329)** |
| | **12,873,872** | **6,847,288** | **19,721,160** | **—** | **19,721,160** |
| Investment properties | **—** | **—** | **—** | **10,971** | **10,971** |
| Non-current assets held for sale | **—** | **—** | **—** | **49,328** | **49,328** |
| Term deposits with initial terms of over three months | **—** | **—** | **—** | **494,951** | **494,951** |
| Structured bank deposits | **—** | **—** | **—** | **3,369,112** | **3,369,112** |
| Deferred income tax assets | **—** | **—** | **—** | **370,051** | **370,051** |
| Interests in associates | **—** | **—** | **—** | **61,572** | **61,572** |
| Other corporate assets | **—** | **—** | **—** | **1,604,030** | **1,604,030** |
| **Total assets per consolidated balance sheet** | **12,873,872** | **6,847,288** | **19,721,160** | **5,960,015** | **25,681,175** |
| Segment liabilities | **1,576,766** | **3,226,458** | **4,803,224** | **—** | **4,803,224** |
| Inter-segment balances elimination | **—** | **(2,168,329)** | **(2,168,329)** | **—** | **(2,168,329)** |
| | **1,576,766** | **1,058,129** | **2,634,895** | **—** | **2,634,895** |
| Short-term borrowings | **—** | **—** | **—** | **1,895,417** | **1,895,417** |
| Current income tax liabilities | **—** | **—** | **—** | **1,361,065** | **1,361,065** |
| Deferred income tax liabilities | **—** | **—** | **—** | **182,822** | **182,822** |
| Other corporate liabilities | **—** | **—** | **—** | **13,200** | **13,200** |
| **Total liabilities per consolidated balance sheet** | **1,576,766** | **1,058,129** | **2,634,895** | **3,452,504** | **6,087,399** |

## 5 Segment information (continued)

| | Year ended 31 December 2010 | | | | |
|---|---|---|---|---|---|
| | Shoes and footwear products *RMB'000* | Sportswear products *RMB'000* | Total reportable segments *RMB'000* | Unallocated *RMB'000* | Total *RMB'000* |
| **Revenue** | | | | | |
| Sales of goods | 14,649,413 | 8,997,199 | 23,646,612 | — | 23,646,612 |
| Commissions from concessionaire sales | — | 59,278 | 59,278 | — | 59,278 |
| | 14,649,413 | 9,056,477 | 23,705,890 | — | 23,705,890 |
| **Results of reportable segments** | 3,472,196 | 577,221 | 4,049,417 | — | 4,049,417 |

**Reconciliation of results of reportable segments to profit for the year**

| | |
|---|---|
| **Results of reportable segments** | 4,049,417 |
| Amortization of intangible assets | (84,236) |
| Unallocated income | 33,981 |
| Unallocated expenses | (36,659) |
| **Operating profit** | 3,962,503 |
| Finance income | 164,325 |
| Finance costs | (1,721) |
| **Profit before income tax** | 4,125,107 |
| Income tax expense | (700,576) |
| **Profit for the year** | 3,424,531 |

| | Shoes and footwear products *RMB'000* | Sportswear products *RMB'000* | Total reportable segments *RMB'000* | Unallocated *RMB'000* | Total *RMB'000* |
|---|---|---|---|---|---|
| **Other segment information** | | | | | |
| Depreciation on property, plant and equipment | 345,369 | 233,864 | 579,233 | 13,471 | 592,704 |
| Amortization of land use rights | 7,859 | 7,454 | 15,313 | — | 15,313 |
| Amortization of intangible assets | 44,518 | 39,718 | 84,236 | — | 84,236 |
| Depreciation on investment properties | — | — | — | 711 | 711 |
| Write-off of property, plant and equipment | 28,191 | 2,734 | 30,925 | — | 30,925 |
| Additions to non-current assets | 701,036 | 270,180 | 971,216 | 267,346 | 1,238,562 |

## 5 Segment information (continued)

| | As at 31 December 2010 | | | | |
|---|---|---|---|---|---|
| | Shoes and footwear products *RMB'000* | Sportswear products *RMB'000* | Total reportable segments *RMB'000* | Unallocated *RMB'000* | Total *RMB'000* |
| Segment assets | 7,857,533 | 5,384,682 | 13,242,215 | | 13,242,215 |
| Goodwill | 1,651,893 | 485,261 | 2,137,154 | — | 2,137,154 |
| Other intangible assets | 575,302 | 885 | 576,187 | — | 576,187 |
| Inter-segment balances elimination | (325,649) | — | (325,649) | — | (325,649) |
| | 9,759,079 | 5,870,828 | 15,629,907 | — | 15,629,907 |
| Investment properties | — | — | — | 11,682 | 11,682 |
| Non-current assets held for sale | — | — | — | 51,776 | 51,776 |
| Term deposits with initial terms of over three months | — | — | — | 886,242 | 886,242 |
| Structured bank deposits | — | — | — | 2,834,405 | 2,834,405 |
| Deferred income tax assets | — | — | — | 191,667 | 191,667 |
| Other corporate assets | — | — | — | 1,226,353 | 1,226,353 |
| **Total assets per consolidated balance sheet** | 9,759,079 | 5,870,828 | 15,629,907 | 5,202,125 | 20,832,032 |
| Segment liabilities | 1,239,052 | 1,221,613 | 2,460,665 | — | 2,460,665 |
| Inter-segment balances elimination | — | (325,649) | (325,649) | — | (325,649) |
| | 1,239,052 | 895,964 | 2,135,016 | — | 2,135,016 |
| Short-term borrowings | — | — | — | 680,744 | 680,744 |
| Current income tax liabilities | — | — | — | 712,236 | 712,236 |
| Deferred income tax liabilities | — | — | — | 176,761 | 176,761 |
| Other corporate liabilities | — | — | — | 12,474 | 12,474 |
| **Total liabilities per consolidated balance sheet** | 1,239,052 | 895,964 | 2,135,016 | 1,582,215 | 3,717,231 |

## 5 Segment information (continued)

The Group's revenue is mainly derived from customers located in the PRC. An analysis of the Group's revenue by location of customers is as follows:

| | Year ended 31 December 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|
| **Revenue** | | |
| The PRC | **27,442,685** | 22,383,398 |
| Hong Kong and Macau | **1,209,129** | 1,094,053 |
| Other locations | **292,890** | 228,439 |
| | **28,944,704** | 23,705,890 |

An analysis of the Group's non-current assets (other than deferred income tax assets and structured bank deposits) by location of assets is as follows:

| | **As at 31 December 2011** | | | As at 31 December 2010 | | |
|---|---|---|---|---|---|---|
| | **The PRC** *RMB'000* | **Hong Kong and Macau** *RMB'000* | **Total** *RMB'000* | The PRC *RMB'000* | Hong Kong and Macau *RMB'000* | Total *RMB'000* |
| **Non-current assets** | | | | | | |
| Property, plant and equipment | **2,490,792** | **360,787** | **2,851,579** | 1,970,434 | 383,231 | 2,353,665 |
| Land use rights | **817,745** | **—** | **817,745** | 628,632 | — | 628,632 |
| Investment properties | **10,971** | **—** | **10,971** | 11,682 | — | 11,682 |
| Intangible assets | **2,718,565** | **71,757** | **2,790,322** | 2,641,584 | 71,757 | 2,713,341 |
| Long-term deposits and prepayments | **924,846** | **37,977** | **962,823** | 619,586 | 37,471 | 657,057 |
| Interests in associates | **61,572** | **—** | **61,572** | — | — | — |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 6 Other income

| | Year ended 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| Rental income | **4,203** | 3,373 |
| Government incentives *(note)* | **109,932** | 25,778 |
| | **114,135** | 29,151 |

*Note:*

Government incentives comprised of the subsidies received from various local governments in the PRC by way of tax refund recognized for the year and deferred income, government incentives received relating to a manufacturing plant, recognized for the year on a straight-line basis.

## 7 Other gains

| | Year ended 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| Gains on disposal of non-current assets held for sale | **—** | 30,608 |

## 8 Operating profit

Operating profit is stated after charging the following:

| | Year ended 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| Costs of inventories recognized as expenses included in costs of sales | **12,384,692** | 10,494,459 |
| Depreciation on property, plant and equipment *(Note 16)* | **693,497** | 592,704 |
| Depreciation on investment properties *(Note 18)* | **711** | 711 |
| Amortization of intangible assets *(Note 19)* | **53,177** | 84,236 |
| Amortization of land use rights *(Note 17)* | **15,724** | 15,313 |
| Operating lease rentals (mainly concessionaire fees) in respect of land and buildings | **6,003,492** | 5,287,346 |
| Staff costs (including directors' emoluments) *(Note 14)* | **3,907,201** | 2,897,816 |
| Loss on disposal of property, plant and equipment *(Note 35(b))* | **4,602** | 20,566 |
| Write-off of property, plant and equipment *(Note 16)* | **6,266** | 30,925 |
| Impairment losses of inventories | **26,655** | — |
| Auditor's remuneration | **10,172** | 9,319 |

Costs of inventories recognized as expenses mainly include purchases, direct employee compensation costs, subcontracting costs and manufacturing overheads.

## 9 Finance income, net

| | Year ended 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| Interest income on bank deposits | **58,115** | 18,752 |
| Interest income from structured bank deposits | **135,547** | 113,644 |
| Net foreign exchange gains | **30,460** | 31,929 |
| | **224,122** | 164,325 |
| Interest expense on short-term bank borrowings wholly repayable within 5 years | **(18,762)** | (1,721) |
| Finance income, net | **205,360** | 162,604 |

## 10 Income tax expense

| | Year ended 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| Current income tax | | |
| – PRC corporate income tax | **1,410,877** | 814,080 |
| – Hong Kong profits tax | **20,608** | 17,271 |
| – Macau income tax | **11,565** | 7,216 |
| (Over)/under provision in prior years | | |
| – PRC corporate income tax | **(27,175)** | 5,124 |
| – Hong Kong profits tax | **4,239** | 5,921 |
| – Macau income tax | **159** | 1,045 |
| Deferred income tax *(Note 23)* | **(188,186)** | (150,081) |
| | **1,232,087** | 700,576 |

Pursuant to the relevant PRC corporate income tax rules and regulations, special income tax rates have been granted to certain subsidiaries of the Company, as being wholly foreign-owned enterprises in Shenzhen, the PRC. Certain subsidiaries established in the PRC are also entitled to a two-year exemption from income taxes followed by a 50% reduction in income taxes for the ensuing three years. These companies have been subject to reduced tax rates ranging from 12% to 24% during the year (2010: These companies have either been exempted from corporate income tax or subject to reduced tax rates ranging from 11% to 22%). The tax rates for these companies will be gradually increased to 25% towards year 2013.

Hong Kong profits tax and Macau income tax have been provided for at the rate of 16.5% (2010: 16.5%) and at the tax rates prevailing in Macau respectively on the estimated assessable profit for the year.

## 10 Income tax expense (continued)

The tax charge on the Group's profit before income tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to results of the consolidated companies as follow:

| | Year ended 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| Profit before income tax | **5,470,541** | 4,125,107 |
| Tax calculated at the domestic tax rates of respective companies | **1,253,729** | 892,329 |
| Effect of tax holidays of PRC subsidiaries | **(75,340)** | (372,108) |
| Non-taxable income | **(10,359)** | (18,079) |
| Expenses not deductible for tax purposes | **12,295** | 13,030 |
| Tax losses for which no deferred income tax assets were recognized | **33,493** | 22,369 |
| Utilization of previously unrecognized tax losses | **(22,211)** | (5,141) |
| (Over)/under provision in prior years | **(22,777)** | 12,090 |
| Withholding tax on dividends | **63,257** | 156,086 |
| | **1,232,087** | 700,576 |

The weighted average applicable tax rate for the year ended 31 December 2011 is 22.9% (2010: 21.6%). The fluctuation in the weighted average applicable tax rate arose mainly because of the change in applicable tax rates of certain PRC subsidiaries and the change in the relative profitability of the companies within the Group.

## 11 Profit attributable to equity holders of the Company

The profit attributable to equity holders of the Company for the year ended 31 December 2011 is dealt with in the financial statements of the Company to the extent of RMB1,899,632,000 (2010: RMB2,542,869,000).

## 12 Earnings per share

### Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

| | Year ended 31 December | |
|---|---|---|
| | **2011** | 2010 |
| Profit attributable to equity holders of the Company *(RMB'000)* | **4,254,584** | 3,424,531 |
| Weighted average number of ordinary shares for the purpose of basic earnings per share *(thousand of share)* | **8,434,233** | 8,434,233 |
| Basic earnings per share *(RMB cents per share)* | **50.44** | 40.60 |

### Diluted

Diluted earnings per share is the same as the basic earnings per share as there were no potential dilutive ordinary shares outstanding during the year.

## 13 Dividends

| | Year ended 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| Interim, paid, of RMB7.0 cents per ordinary share (2010: RMB5.0 cents) *(note (a) and (c))* | **590,396** | 421,712 |
| No payment of special dividend (2010: special, paid, of RMB10.0 cents per ordinary share) *(note (c))* | — | 843,423 |
| Final, proposed, of RMB8.0 cents per ordinary share (2010: RMB6.0 cents) *(note (b) and (c))* | **674,739** | 506,054 |
| No proposed special dividend (2010: special, proposed, of RMB10.0 cents per ordinary share) *(note (c))* | — | 843,423 |
| | **1,265,135** | 2,614,612 |

## 13 Dividends (continued)

*Notes:*

(a) At a meeting held on 25 August 2011, the directors declared an interim dividend of RMB7.0 cents per ordinary share (totaling RMB590,396,000) for the year ended 31 December 2011. The amount was paid during the year.

(b) At a meeting held on 20 March 2012, the directors recommended the payment of a final dividend of RMB8.0 cents per ordinary share (totaling RMB674,739,000) for the year ended 31 December 2011. This proposed dividend is not reflected as dividend payable in the financial statements, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2012.

(c) At a meeting held on 24 August 2010, the directors declared an interim dividend of RMB5.0 cents per ordinary share (totaling RMB421,712,000) and a special dividend of RMB10.0 cents per ordinary share (totaling RMB843,423,000) for the year ended 31 December 2010. These amounts were paid during the year ended 31 December 2010.

At a meeting held on 23 March 2011, the directors recommended the payment of a final dividend of RMB6.0 cents per ordinary share (totaling RMB506,054,000) and a special dividend of RMB10.0 cents per ordinary share (totaling RMB843,423,000) for the year ended 31 December 2010. These amounts were paid during the year ended 31 December 2011.

## 14 Staff costs (including directors' emoluments)

| | **Year ended 31 December** | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| Wages, salaries and bonuses | **3,301,570** | 2,463,007 |
| Pensions costs - defined contribution plans *(note)* | **477,805** | 341,323 |
| Welfare and other expenses | **127,826** | 93,486 |
| | **3,907,201** | 2,897,816 |

*Note:*

**The PRC defined contribution plan**

As stipulated by rules and regulations in the PRC, the Group contributes to state-sponsored retirement schemes for its relevant employees in the PRC. The Group's relevant employees make monthly contributions to the schemes at 8% to 11% of the relevant income (comprising wages, salaries, allowances and bonus), while the Group contributes 10% to 35% of such income and has no further obligations for the actual payment of post-retirement benefits beyond the contributions. The state-sponsored retirement schemes are responsible for the entire post-retirement benefit obligations payable to the retired employees.

**Hong Kong defined contribution plan**

The Group has a defined contribution pension scheme, the Mandatory Provident Fund Scheme (the "MPF Scheme"), for its employees in Hong Kong. The assets of the MPF Scheme are held separately from those of the Group under independently administered funds.

Under the MPF Scheme, each of the Group (the employer) and its Hong Kong employees makes monthly contributions to the scheme at 5% of the employees' relevant income, as defined in the Mandatory Provident Fund Scheme Ordinance. Both the Group's and the employee's contributions are subject to a cap of HK$1,000 and contributions thereafter are voluntary. The contributions are fully and immediately vested upon payment.

The Group has no further obligations for post-retirement benefits in relation to its Hong Kong employees beyond the contributions to the MPF Scheme.

## 15 Emoluments for directors and five highest paid individuals

### (a) Directors' emoluments

| | Fees | Basic salaries, housing allowance, other allowances and benefits in kind | Bonuses | Employer's contributions to retirement schemes | Total |
|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Year ended 31 December 2011** | | | | | |
| **Executive directors** | | | | | |
| Tang Yiu | **—** | **3,888** | **—** | **—** | **3,888** |
| Sheng Baijiao | **—** | **3,258** | **4,342** | **16** | **7,616** |
| Tang King Loy | **—** | **2,106** | **648** | **10** | **2,764** |
| Sheng Fang* | **—** | **927** | **1,911** | **18** | **2,856** |
| Yu Mingfang^ | **—** | **524** | **—** | **7** | **531** |
| **Non-executive directors** | | | | | |
| Gao Yu | **—** | **—** | **—** | **—** | **—** |
| Hu Xiaoling | **—** | **—** | **—** | **—** | **—** |
| **Independent non-executive directors** | | | | | |
| Chan Yu Ling, Abraham | **150** | **—** | **—** | **—** | **150** |
| Ho Kwok Wah, George | **150** | **—** | **—** | **—** | **150** |
| Xue Qiuzhi | **150** | **—** | **—** | **—** | **150** |
| | **450** | **10,703** | **6,901** | **51** | **18,105** |
| Year ended 31 December 2010 | | | | | |
| Executive directors | | | | | |
| Tang Yiu | — | 4,155 | 3,506 | — | 7,661 |
| Sheng Baijiao | — | 3,358 | 4,255 | 15 | 7,628 |
| Yu Mingfang | — | 2,151 | 1,856 | 29 | 4,036 |
| Tang King Loy | — | 2,251 | 346 | 10 | 2,607 |
| Non-executive directors | | | | | |
| Gao Yu | — | — | — | — | — |
| Hu Xiaoling | — | — | — | — | — |
| Independent non-executive directors | | | | | |
| Chan Yu Ling, Abraham | 150 | — | — | — | 150 |
| Ho Kwok Wah, George | 150 | — | — | — | 150 |
| Xue Qiuzhi | 150 | — | — | — | 150 |
| | 450 | 11,915 | 9,963 | 54 | 22,382 |

* *Appointed as an Executive Director effective from 26 May 2011*

^ *Resigned as an Executive Director effective from 24 March 2011*

## 15 Emoluments for directors and five highest paid individuals (continued)

### (b) Five highest paid individuals

The five highest paid individuals included 3 (2010: 3) directors, whose emoluments are included in the above disclosure. The emoluments of the remaining 2 (2010: 2) individuals during the year are as follows:

| | Year ended 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| Salaries, allowances and benefits in kind | **3,672** | 3,866 |
| Bonuses | **3,554** | 2,267 |
| Pensions costs - defined contribution plans | **26** | 25 |
| | **7,252** | 6,158 |

| | Number of individuals<br>Year ended 31 December | |
|---|---|---|
| | **2011** | 2010 |
| HK$3,500,001 (equivalent to RMB2,908,000) to HK$4,000,000 (equivalent to RMB3,323,000) | **—** | 2 |
| HK$4,000,001 (equivalent to RMB3,323,000) to HK$4,500,000 (equivalent to RMB3,739,000) | **2** | — |
| | **2** | 2 |

During the year, no emoluments have been paid to the directors of the Company or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office (2010: Nil).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 16 Property, plant and equipment

| | Leasehold land and buildings | Leasehold improve-ments | Plant and equipment | Furniture and fixtures and other equipment | Motor vehicles | Construc-tion in progress | Total |
|---|---|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Cost** | | | | | | | |
| As at 1 January 2010 | 1,123,721 | 1,273,468 | 359,785 | 237,177 | 77,529 | 29,917 | 3,101,597 |
| Additions | 112,627 | 493,754 | 78,765 | 112,713 | 13,526 | 156,918 | 968,303 |
| Transfer upon completion | 86,425 | — | — | — | — | (86,425) | — |
| Disposals | (21,948) | (6,799) | (33,440) | (13,722) | (4,667) | — | (80,576) |
| Written-off | (12,064) | (402,295) | (75) | (14,489) | (420) | — | (429,343) |
| Exchange differences | (8,846) | (2,320) | (626) | (848) | (424) | — | (13,064) |
| As at 31 December 2010 and 1 January 2011 | **1,279,915** | **1,355,808** | **404,409** | **320,831** | **85,544** | **100,410** | **3,546,917** |
| Additions | **43,772** | **671,278** | **79,798** | **109,726** | **25,031** | **295,736** | **1,225,341** |
| Transfer upon completion | **207,539** | **—** | **—** | **—** | **—** | **(207,539)** | **—** |
| Disposals | **—** | **—** | **(4,208)** | **(36,907)** | **(5,088)** | **—** | **(46,203)** |
| Written-off | **—** | **(409,793)** | **—** | **(8)** | **—** | **—** | **(409,801)** |
| Exchange differences | **(16,654)** | **(6,544)** | **(811)** | **(813)** | **(117)** | **—** | **(24,939)** |
| **As at 31 December 2011** | **1,514,572** | **1,610,749** | **479,188** | **392,829** | **105,370** | **188,607** | **4,291,315** |
| **Accumulated depreciation** | | | | | | | |
| As at 1 January 2010 | 91,793 | 711,632 | 97,027 | 111,882 | 35,247 | — | 1,047,581 |
| Charge for the year | 69,599 | 413,437 | 30,504 | 66,456 | 12,708 | — | 592,704 |
| Disposals | (21,948) | (2,220) | (10,700) | (9,021) | (2,372) | — | (46,261) |
| Written-off | — | (397,893) | (34) | (103) | (388) | — | (398,418) |
| Exchange differences | (368) | (1,161) | (415) | (387) | (23) | — | (2,354) |
| As at 31 December 2010 and 1 January 2011 | **139,076** | **723,795** | **116,382** | **168,827** | **45,172** | **—** | **1,193,252** |
| Charge for the year | **59,942** | **492,802** | **33,487** | **84,907** | **22,359** | **—** | **693,497** |
| Disposals | **—** | **—** | **(3,972)** | **(28,379)** | **(3,898)** | **—** | **(36,249)** |
| Written-off | **—** | **(403,532)** | **—** | **(3)** | **—** | **—** | **(403,535)** |
| Exchange differences | **(924)** | **(5,238)** | **(299)** | **(690)** | **(78)** | **—** | **(7,229)** |
| **As at 31 December 2011** | **198,094** | **807,827** | **145,598** | **224,662** | **63,555** | **—** | **1,439,736** |
| **Net book value** | | | | | | | |
| **As at 31 December 2011** | **1,316,478** | **802,922** | **333,590** | **168,167** | **41,815** | **188,607** | **2,851,579** |
| As at 31 December 2010 | 1,140,839 | 632,013 | 288,027 | 152,004 | 40,372 | 100,410 | 2,353,665 |

## 16 Property, plant and equipment (continued)

Net book value of leasehold land and buildings are analyzed as follows:

| | As at 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| Leasehold land and buildings in Hong Kong held on leases of between 10 to 50 years | **312,272** | 336,526 |
| Buildings outside Hong Kong held on leases of between 10 to 50 years | **1,004,206** | 804,313 |
| | **1,316,478** | 1,140,839 |

## 17 Land use rights

| | As at 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| **Cost** | | |
| As at 1 January | **701,283** | 584,022 |
| Additions | **204,837** | 117,261 |
| As at 31 December | **906,120** | 701,283 |
| **Accumulated amortization** | | |
| As at 1 January | **72,651** | 57,338 |
| Amortization for the year | **15,724** | 15,313 |
| As at 31 December | **88,375** | 72,651 |
| **Net book value as at 31 December** | **817,745** | 628,632 |

As at 31 December 2010 and 2011, all of the above land use rights of the Group are outside Hong Kong and held on leases of between 10 and 50 years.

## 18 Investment properties

| | As at 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| **Cost** | | |
| As at 1 January and 31 December | **14,231** | 14,231 |
| **Accumulated depreciation** | | |
| As at 1 January | **2,549** | 1,838 |
| Charge for the year | **711** | 711 |
| As at 31 December | **3,260** | 2,549 |
| **Net book value as at 31 December** | **10,971** | 11,682 |

As at 31 December 2010 and 2011, all of the above investment properties of the Group are outside Hong Kong and held on leases of between 10 and 50 years.

The valuation of the investment properties as at 31 December 2011 was RMB15,934,000 (2010: RMB14,231,000), which was determined by the directors of the Company on an open market value basis.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 19 Intangible assets

| | Goodwill | Distribution and license contracts | Trademarks | Computer software | Total |
|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Cost** | | | | | |
| As at 1 January 2010 | 2,137,154 | 349,635 | 539,022 | 20,936 | 3,046,747 |
| Additions | — | — | — | 3,326 | 3,326 |
| Exchange differences | — | — | (88) | — | (88) |
| As at 31 December 2010 and 1 January 2011 | **2,137,154** | **349,635** | **538,934** | **24,262** | **3,049,985** |
| Additions | **—** | **—** | **539** | **7,721** | **8,260** |
| Acquisition of subsidiaries *(Note 37)* | **58,448** | **63,450** | **—** | **—** | **121,898** |
| **As at 31 December 2011** | **2,195,602** | **413,085** | **539,473** | **31,983** | **3,180,143** |
| **Accumulated amortization** | | | | | |
| As at 1 January 2010 | — | 183,077 | 59,140 | 10,256 | 252,473 |
| Amortization for the year | — | 59,451 | 20,422 | 4,363 | 84,236 |
| Exchange differences | — | — | (65) | — | (65) |
| As at 31 December 2010 and 1 January 2011 | **—** | **242,528** | **79,497** | **14,619** | **336,644** |
| Amortization for the year | **—** | **29,348** | **19,169** | **4,660** | **53,177** |
| **As at 31 December 2011** | **—** | **271,876** | **98,666** | **19,279** | **389,821** |
| **Net book value** | | | | | |
| **As at 31 December 2011** | **2,195,602** | **141,209** | **440,807** | **12,704** | **2,790,322** |
| As at 31 December 2010 | 2,137,154 | 107,107 | 459,437 | 9,643 | 2,713,341 |

Goodwill is allocated to the Group's CGUs identified according to operating segments.

## 19 Intangible assets (continued)

An operating segment-level summary of the goodwill allocation at cost before impairment is presented below:

| | Shoes and footwear products RMB'000 | Sportswear products RMB'000 | Total RMB'000 |
|---|---|---|---|
| **As at 31 December 2011** | | | |
| The PRC | **1,638,584** | **485,261** | **2,123,845** |
| Hong Kong | **71,757** | **—** | **71,757** |
| | **1,710,341** | **485,261** | **2,195,602** |
| As at 31 December 2010 | | | |
| The PRC | 1,580,136 | 485,261 | 2,065,397 |
| Hong Kong | 71,757 | — | 71,757 |
| | 1,651,893 | 485,261 | 2,137,154 |

For the purposes of impairment reviews, the recoverable amount of goodwill is determined based on value-in-use calculations. The value-in-use calculations use cash flow projections based on financial budgets approved by management for the purposes of impairment reviews covering a five-year period. Cash flows beyond the five-year period are extrapolated using estimated annual growth rate of 0%. The growth rate used is largely consistent and do not exceed the industry growth forecast.

Key assumptions used for value-in-use calculations:

| | Shoes and footwear products | | Sportswear products |
|---|---|---|---|
| | The PRC | Hong Kong | The PRC |
| Gross margin | **55% to 63%** | **68% to 77%** | **36%** |
| Annual growth rate of approved financial budgets | **17% to 57%** | **4% to 12%** | **14% to 16%** |
| Annual discount rate | **18%** | **17%** | **18%** |

The annual discount rate is before tax and reflects market assessments of the time value and the specific risks relating to the industry. The budgeted gross margin was determined by the management based on past performance and its expectation for market development. Management believes that any reasonably foreseeable change in any of the above key assumptions would not cause the carrying amount of goodwill to exceed the recoverable amount. Judgment is required to determine key assumptions adopted in the cash flow projections and the changes to key assumptions can significantly affect these cash flow projections.

## 20 Interests in subsidiaries

| | Company As at 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| Unlisted equity investments, at cost | **4,333,427** | 4,333,427 |
| Loans to subsidiaries *(note (a))* | **6,454,810** | 5,808,736 |
| | **10,788,237** | 10,142,163 |
| Amounts due from subsidiaries *(note (b))* | **3,629,526** | 3,271,071 |
| Amounts due to subsidiaries *(note (b))* | **2,668,804** | 1,624,063 |

*Notes:*

(a) Loans to subsidiaries are unsecured and non-interest bearing. These loans have no fixed terms of repayment and are regarded as equity contributions to the subsidiaries.

(b) Amounts due from/to subsidiaries are unsecured, non-interest bearing and repayable on demand. The carrying amounts of these balances are mainly denominated in RMB and approximate their fair values due to their short maturities.

(c) Particulars of the principal subsidiaries of the Company are set out in Note 41.

## 21 Interests in associates

| | As at 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| As at 1 January | **—** | — |
| Capital contribution during the year | **61,200** | — |
| Share of profit | **372** | — |
| **As at 31 December** | **61,572** | — |

## 21 Interests in associates (continued)

Summarized financial information in respect of the Group's associates is set out below:

| | 2011 | 2010 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| As at 31 December | | |
| Total assets | **275,814** | — |
| Total liabilities | **(113,781)** | — |
| For the year ended 31 December | | |
| Total revenue | **112,204** | — |
| Total profit | **1,033** | — |
| Share of profit of associates | **372** | — |

Particulars of the associates of the Group are set out in Note 41.

## 22 Deposits, prepayments and other receivables

| | Group | | Company | |
|---|---|---|---|---|
| | As at 31 December | | As at 31 December | |
| | **2011** | 2010 | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| Non-current: | | | | |
| Rental deposits and prepayments | **273,143** | 236,058 | **—** | — |
| Prepayments for purchase of land use rights | **9,879** | 190,000 | **—** | — |
| Prepayments for purchase of properties in the PRC | **668,761** | 229,672 | **—** | — |
| Others | **11,040** | 1,327 | **—** | — |
| | **962,823** | 657,057 | **—** | — |
| Current: | | | | |
| Rental deposits and prepayments | **529,900** | 456,449 | **—** | — |
| Value-added tax recoverables | **569,299** | 463,900 | **—** | — |
| Other receivables | **233,237** | 293,401 | **—** | — |
| Other prepayments | **369,567** | 138,470 | **539** | 539 |
| Advance to an associate *(note 39)* | **51,415** | — | **—** | — |
| | **1,753,418** | 1,352,220 | **539** | 539 |

The carrying amounts of deposits and other receivables approximate their fair values.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 23 Deferred income taxes

Deferred income taxes are calculated in respect of temporary differences under the liability method using the tax rates enacted or substantively enacted by the balance sheet date.

The following amounts, determined after appropriate offsetting, are shown in the consolidated balance sheet:

| | As at 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| Net deferred income tax assets recognized on the balance sheet | **370,051** | 191,667 |
| Net deferred income tax liabilities recognized on the balance sheet | **(182,822)** | (176,761) |
| | **187,229** | 14,906 |

The movement on the deferred income tax assets/(liabilities) account is as follows:

| | Accelerated tax depreciation | Unrealized profit on closing inventories | Deferred income tax liabilities arising from recognition of distribution and license contracts | Deferred income tax liabilities arising from recognition of trademarks | Tax losses | Others | Total |
|---|---|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| At 1 January 2010 | (65,719) | 73,036 | (21,347) | (113,171) | 18,091 | (26,065) | (135,175) |
| Credited/(charged) to the income statement *(Note 10)* | 64,998 | 103,869 | 13,960 | 4,449 | (3,367) | (33,828) | 150,081 |
| At 31 December 2010 and 1 January 2011 | **(721)** | **176,905** | **(7,387)** | **(108,722)** | **14,724** | **(59,893)** | **14,906** |
| Acquisition of subsidiaries *(Note 37)* | **—** | **—** | **(15,863)** | **—** | **—** | **—** | **(15,863)** |
| Credited/(charged) to the income statement *(Note 10)* | **25** | **181,965** | **4,933** | **4,828** | **(3,543)** | **(22)** | **188,186** |
| **At 31 December 2011** | **(696)** | **358,870** | **(18,317)** | **(103,894)** | **11,181** | **(59,915)** | **187,229** |

Deferred income tax assets are recognized for tax losses carried forward to the extent that the realization of the related tax benefit through future taxable profits is probable. At 31 December 2011, the Group had unrecognized tax losses to be carried forward against future taxable income amounting to RMB478,304,000 (2010: RMB428,993,000).

## 23 Deferred income taxes (continued)

The expiry of unrecognized tax losses are as follows:

| | As at 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| Tax losses without expiry date | **109,030** | 108,167 |
| Tax losses expiring after 5 years | **103,859** | 109,013 |
| Tax losses expiring in 5 years | **265,415** | 211,813 |
| | **478,304** | 428,993 |

As at 31 December 2011, the potential deferred income tax assets in respect of the above tax losses which have not been recognized amounted to RMB114,573,000 (2010: RMB104,670,000).

Pursuant to the relevant PRC corporate income tax rules and regulations, withholding tax is imposed on dividends declared in respect of profits earned by the Company's PRC subsidiaries from 1 January 2008. Deferred income tax liabilities of approximately RMB389,000,000 (2010: approximately RMB244,000,000) have not been provided for in these consolidated financial statements in respect of temporary differences attributable to accumulated profits of the Group's PRC subsidiaries as the Group controls the dividend policy of these PRC subsidiaries and it is probable that these temporary differences will not reverse in the foreseeable future.

## 24 Inventories

| | As at 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| Raw materials | **279,925** | 243,936 |
| Work in progress | **56,402** | 73,953 |
| Finished goods | **6,242,409** | 4,566,584 |
| Consumables | **2,573** | 12,692 |
| | **6,581,309** | 4,897,165 |
| Less: provision for impairment losses | **(64,683)** | (38,028) |
| | **6,516,626** | 4,859,137 |

## 25 Trade receivables

The Group's concessionaire sales through department stores are generally collectible within 30 days from the invoice date while the sales to corporate customers are generally on credit terms ranging from 0 to 30 days. As at 31 December 2011, the aging analysis of trade receivables, based on invoice date, is as follows:

| | As at 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| 0 to 30 days | **2,688,565** | 2,019,606 |
| 31 to 60 days | **27,072** | 39,092 |
| 61 to 90 days | **14,809** | 19,344 |
| Over 90 days | **15,472** | 41,634 |
| | **2,745,918** | 2,119,676 |

The carrying amounts of trade receivables approximate their fair values.

The carrying amounts of the Group's trade receivables are denominated in the following currencies:

| | As at 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| RMB | **2,707,442** | 2,054,582 |
| HK$ | **38,476** | 65,094 |
| | **2,745,918** | 2,119,676 |

Included in trade receivables is an amount due from an associate of RMB31,825,000 (2010: Nil) which mainly arises from transactions with the associate as detailed in Note 39.

As at 31 December 2011, trade receivables of RMB2,715,637,000 (2010: RMB2,074,471,000) were neither past due nor impaired. The credit quality of these trade receivables has been assessed with reference to historical information about the counterparty default rates. The existing counterparties do not have defaults in the past.

## 25 Trade receivables (continued)

As at 31 December 2011, trade receivables of RMB30,281,000 (2010: RMB45,205,000) were past due but for which no impairment loss has been provided by the Group. These trade receivables relate to a number of independent debtors for whom there is no recent history of default. The Group does not hold any collateral as security over these debtors. The ageing analysis of the trade receivables which are past due but not impaired is as follows:

| | **As at 31 December** | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| 61 to 90 days | **14,809** | 3,571 |
| 91 to 150 days | **15,472** | 41,634 |
| | **30,281** | 45,205 |

During the years ended 31 December 2010 and 2011, no trade receivables were impaired and written off. No trade receivables are considered to be impaired as at 31 December 2010 and 2011.

## 26 Structured bank deposits

All of the Group's structured bank deposits were placed with major state-owned banks in the PRC with fixed maturity and interest. The weighted average effective interest rate of the Group's structured bank deposits as at 31 December 2011 was 4.51% (2010: 3.45%). These balances are denominated in RMB.

As at 31 December 2011, approximately 76% (2010: 51%) of the Group's structured bank deposits are matured within 6 months .

## 27 Term deposits with initial terms of over three months

The weighted average effective interest rate of the Group's term deposits with initial terms of over three months as at 31 December 2011 was 2.63% (2010: 2.45%). These balances are denominated in RMB.

## 28 Cash and cash equivalents

| | Group | | Company | |
|---|---|---|---|---|
| | As at 31 December | | As at 31 December | |
| | **2011** | 2010 | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| Cash and bank balances | **2,881,759** | 1,685,887 | **1,713** | 2,887 |
| Term deposits with initial terms of less than three months | **5,000** | 486,645 | **—** | — |
| | **2,886,759** | 2,172,532 | **1,713** | 2,887 |
| Denominated in: | | | | |
| RMB | **2,548,148** | 1,949,910 | **—** | — |
| HK$ | **291,155** | 198,233 | **1,713** | 2,887 |
| Other currencies | **47,456** | 24,389 | **—** | — |
| | **2,886,759** | 2,172,532 | **1,713** | 2,887 |

As at 31 December 2011, the weighted average effective interest rate of the Group's term deposits with initial terms of less than three months was 1.49% (2010: 1.04%).

Cash at banks earns interest at floating rates based on daily bank deposit rates. The conversion of the RMB denominated balances into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

## 29 Non-current assets held for sale

As at 31 December 2011, non-current assets held for sale represent an office premises of the Group located in Hong Kong that management intends to dispose of within 12 months. The asset is stated at the lower of its carrying amount and fair value less costs to sell. Movement of the non-current assets held for sale is as follows:

| | **2011** | 2010 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| As at 1 January | **51,776** | 613,805 |
| Disposals | **—** | (562,029) |
| Exchange difference | **(2,448)** | — |
| **As at 31 December** | **49,328** | 51,776 |

As at 31 December 2010 and 2011, the above property of the Group is held on lease of between 10 and 50 years in Hong Kong.

## 30 Trade payables

The credit periods granted by suppliers generally range from 0 to 60 days. At 31 December 2011, the aging analysis of trade payables is as follows:

| | As at 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| 0 to 30 days | **1,090,950** | 916,658 |
| 31 to 60 days | **146,510** | 181,055 |
| Over 60 days | **10,801** | 8,053 |
| | **1,248,261** | 1,105,766 |

The carrying amounts of trade payables approximate their fair values.

The carrying amounts of the Group's trade payables are denominated in the following currencies:

| | As at 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| RMB | **1,216,219** | 1,081,172 |
| HK$ | **11,128** | 12,682 |
| Other currencies | **20,914** | 11,912 |
| | **1,248,261** | 1,105,766 |

Included in trade payables is an amount due to an associate of RMB1,491,000 (2010: Nil) which mainly arises from transactions with the associate as detailed in Note 39.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 31 Other payables, accruals and other current liabilities

| | Group | | Company | |
|---|---|---|---|---|
| | As at 31 December | | As at 31 December | |
| | **2011** | 2010 | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| Accrued wages, salaries, bonus and staff welfare | **514,531** | 400,172 | **—** | — |
| Value-added tax, business tax and other taxes payables | **269,535** | 81,808 | **—** | — |
| Customers' deposits | **281,319** | 273,182 | **—** | — |
| Other accrued expenses and payables | **259,466** | 206,538 | **3,376** | 4,521 |
| | **1,324,851** | 961,700 | **3,376** | 4,521 |

## 32 Short-term borrowings

(a) As at 31 December 2011, the Group's bank borrowings were carried at floating rates and the weighted average effective interest rate was 1.95% (2010: 1.34%) per annum. The carrying amount of the Group's bank borrowings is denominated in HK$ and approximates their fair values. All these bank borrowings are wholly repayable within 5 years.

(b) The Group's banking facilities, including borrowings, trade finance and other general banking facilities were secured as follows:

| | As at 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| Cross guarantees among subsidiaries of the Company | **2,100,767** | 672,490 |
| Guaranteed by the Company | **2,679,607** | 1,225,594 |
| Corresponding banking facilities utilized | **2,088,447** | 680,744 |

## 33 Share capital and share premium

### Share capital - Group and Company

| | Ordinary shares of HK$0.01 each | Nominal amount |
|---|---|---|
| | *Number of shares* | *RMB'000* |
| **Authorized:** | | |
| As at 1 January 2010, 31 December 2010 and 31 December 2011 | **30,000,000,000** | **296,038** |
| **Issued and fully paid:** | | |
| As at 1 January 2010, 31 December 2010 and 31 December 2011 | **8,434,233,000** | **83,056** |

### Share premium - Company

| | |
|---|---|
| | *RMB'000* |
| As at 1 January 2010, 31 December 2010 and 31 December 2011 | **9,331,889** |

Under the Companies Law. Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, the share premium is distributable to the shareholders of the Company, provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

### Share option scheme

Pursuant to a shareholders resolution passed on 27 April 2007, the Company has adopted a share option scheme (the "Share Option Scheme"). The purpose of the Share Option Scheme is to provide an incentive for Qualified Participants (defined below) to work with commitment towards enhancing the value of the Company and its shares for the benefit of the shareholders of the Company and to retain and attract high calibers and working partners whose contributions are or may be beneficial to the growth and development of the Group.

Pursuant to the Share Option Scheme, the Board may at its discretion grant options to (i) any executive director, or employee (whether full time or part time) of the Company, any member of the Group or any entity in which any member of the Group holds an equity interest ("Invested Entity"); (ii) any non-executive directors (including independent non-executive directors) of the Company, any member of the Group or any Invested Entity ((i) and (ii) collectively referred to as "Eligible Employees"); (iii) any supplier of goods or services to the Company, any member of the Group or any Invested Entity; (iv) any customer of the Company, any member of the Group or any Invested Entity; and (v) any such persons (including but not limited to consultant, adviser, contractor, business partner or service provider of the Company or any member of the Group or any Invested Entity) who in the absolute discretion of the Board has contributed or will contribute to the Group (collectively referred to as "Qualified Participants").

The Share Option Scheme shall be valid and effective for 10 years from the date on which the shares of the Company first commenced trading on the Stock Exchange (the "Listing Date"). The maximum number of shares of the Company in which options may be granted under the Share Option Scheme or any other share option schemes as may be adopted by the Company shall not in aggregate exceed the number of shares that shall represent 10% of the total number of shares in issue of the Listing Date, unless such scheme mandate limit is renewed by shareholders of the Company in a general meeting.

No options have been granted under the share option scheme by the Group since its adoption and up to 31 December 2011.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 34 Reserves

### Group

(a) Movements in the reserves of the Group are set out in the consolidated statement of changes in equity.

(b) Under the Company Law. Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, the merger reserve is distributable to the shareholders of the Company, provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

The merger reserve of the Group mainly represents the difference between the nominal amount of the share capital issued by the Company and the nominal amount of the share capital of the subsidiaries transferred to the Company pursuant to the reorganization of the Group that took place in 2005.

(c) Statutory reserves are non-distributable and the transfers of these funds are determined by the board of directors of the relevant PRC subsidiaries in accordance with the relevant laws and regulations in the PRC.

### Company

| | Capital redemption reserve | Retained earnings | Total |
|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* |
| As at 1 January 2010 | 70 | 1,432,696 | 1,432,766 |
| Profit for the year | — | 2,542,869 | 2,542,869 |
| Dividends paid | — | (1,602,504) | (1,602,504) |
| As at 31 December 2010 and 1 January 2011 | **70** | **2,373,061** | **2,373,131** |
| Profit for the year | **—** | **1,899,632** | **1,899,632** |
| Dividends paid | **—** | **(1,939,873)** | **(1,939,873)** |
| **As at 31 December 2011** | **70** | **2,332,820** | **2,332,890** |

## 35 Consolidated statement of cash flows

(a) Reconciliation of profit for the year to net cash generated from operations

| | Year ended 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| Profit for the year | **4,238,454** | 3,424,531 |
| Adjustments for: | | |
| Income tax expense | **1,232,087** | 700,576 |
| Share of profit of associates | **(372)** | — |
| Amortization of land use rights and intangible assets | **68,901** | 99,549 |
| Depreciation on property, plant and equipment | **693,497** | 592,704 |
| Depreciation on investment properties | **711** | 711 |
| Impairment losses of inventories | **26,655** | — |
| Gain on disposal of non-current assets held for sale | **—** | (30,608) |
| Loss on disposal of property, plant and equipment | **4,602** | 20,566 |
| Write-off of property, plant and equipment | **6,266** | 30,925 |
| Interest income | **(193,662)** | (132,396) |
| Interest expense | **18,762** | 1,721 |
| Others | **(16,465)** | (9,922) |
| | **6,079,436** | 4,698,357 |
| Changes in working capital: | | |
| Increase in long-term deposits and prepayments | **(46,798)** | (55,691) |
| Increase in inventories | **(1,684,144)** | (943,236) |
| Increase in trade receivables | **(626,242)** | (359,164) |
| Increase in deposits, prepayments and other receivables | **(401,198)** | (743,324) |
| Increase in trade payables | **142,495** | 387,705 |
| Increase in other payables, accruals, other current and non-current liabilities | **339,151** | 65,229 |
| Net cash generated from operations | **3,802,700** | 3,049,876 |

(b) In the statement of cash flows, proceeds from sale of non-current assets held for sale and property, plant and equipment comprise:

| | Year ended 31 December | | | |
|---|---|---|---|---|
| | **2011** | | 2010 | |
| | **Non-current assets held for sale** | **Property, plant and equipment** | Non-current assets held for sale | Property, plant and equipment |
| | ***RMB'000*** | ***RMB'000*** | *RMB'000* | *RMB'000* |
| Net book value | **—** | **9,954** | 562,029 | 34,315 |
| (Loss)/gain on disposal | **—** | **(4,602)** | 30,608 | (20,566) |
| Proceeds from sale | **—** | **5,352** | 592,637 | 13,749 |

## 36 Commitments

### (a) Capital commitments

As at 31 December 2011, the Group had the following capital commitments not provided for:

| | As at 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| Purchase of a property in the PRC: | | |
| – Contracted but not provided for | **197,000** | 607,500 |
| Construction commitments: | | |
| – Authorized but not contracted | **18,260** | 44,350 |
| – Contracted but not provided for | **68,188** | 145,654 |
| | **86,448** | 190,004 |

### (b) Operating lease commitments

As at 31 December 2011, the future aggregate minimum lease payments in respect of land and buildings under non-cancellable operating leases were as follows:

| | As at 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| Not later than 1 year | **860,517** | 488,338 |
| Later than 1 year and not later than 5 years | **676,812** | 477,458 |
| Later than 5 years | **221,977** | 140,754 |
| | **1,759,306** | 1,106,550 |

Generally, the Group's operating leases are for terms of 1 to 10 years.

The actual payments in respect of certain operating leases are calculated at a certain percentage of sales of the respective retail outlets or at the higher of the minimum commitments as noted above and the amounts determined based on a percentage of the sales of the related outlets.

The Company did not have any other significant commitments at 31 December 2011 (2010: Nil).

## 37 Acquisition of subsidiaries

On 1 July 2011, the Group completed the acquisition and investment of 60% equity interest in Best Sail International Holdings Limited ("Best Sail"). Best Sail and its subsidiaries is principally engaged in sales of children's footwear in the PRC. As a result of the acquisition, the Group is expected to target the children market segment. The goodwill of RMB 58,448,000 arising from the acquisition is attributable to specific skills and resources acquired.

The following table summarizes the consideration paid for Best Sail, the fair value of assets acquired and liabilities assumed, and the non-controlling interest at the acquisition date.

| | ***RMB'000*** |
|---|---|
| **Cash consideration at 1 July 2011** | **87,000** |
| **Recognized amounts of identifiable assets acquired and liabilities assumed** | |
| Distribution and license contracts (included in intangible assets) *(Note 19)* | **63,450** |
| Deferred income tax liabilities *(Note 23)* | **(15,863)** |
| **Total identifiable net assets** | **47,587** |
| Non-controlling interest | **(19,035)** |
| Goodwill *(Note 19)* | **58,448** |
| | **87,000** |

Non-controlling interest in Best Sail was measured at the non-controlling interest's proportionate share of the Best Sail's net identifiable asset. The revenue and the results contributed by Best Sail to the Group for the year ended 31 December 2011 since the acquisition date is insignificant to the Group and the Group's revenue and results for the year ended 31 December 2011 would not be materially different if the acquisition had occurred on 1 January 2011.

## 38 Future minimum rental payments receivable

As at 31 December 2011, the future aggregate minimum rental payments receivable in respect of land and buildings under non-cancellable operating leases were as follows:

| | **As at 31 December** | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| Not later than 1 year | **19,074** | 8,045 |
| Later than 1 year and not later than 5 years | **3,471** | — |
| | **22,545** | 8,045 |

## 39 Related party transactions

During the year, the related party other than the key management that had transactions with the Group is as follows:

| **Name of Related Party** | **Relationship with the Group** |
|---|---|
| Heshan New Eagle Footwear Company Limited ("New Eagle") | An associate |

The following is a summary of significant related party transactions entered into in the ordinary course of business between the Group and its related parties and the balances arising from related party transactions in addition to the related party information shown elsewhere in the consolidated financial statements:

### Transactions for the year

| | **Year ended 31 December** | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| Processing fee income received from New Eagle *(note a)* | **27,201** | — |
| Purchases of goods from New Eagle *(note a)* | **5,451** | — |
| Key management compensation | | |
| – Salaries, bonuses and other welfare *(note b)* | **29,104** | 35,168 |

### Year-end balances

| | **As at 31 December** | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| Receivables from/(payables to) New Eagle | | |
| – Trade receivables *(note c)* | **31,825** | — |
| – Other receivables *(note d)* | **51,415** | — |
| – Trade payables *(note c)* | **(1,491)** | — |

*Notes:*

(a) Processing fee income and purchases of goods from New Eagle are on normal commercial terms and conditions.

(b) Key management includes directors and certain executives who have important roles in making operational and financial decisions.

(c) The receivables from/payables to New Eagle arise mainly from transactions as described above which are due for settlement one month after the date of invoice. The balances are unsecured, interest free and denominated in RMB.

(d) The balance represents advance made to New Eagle which is unsecured, interest free, repayable on demand and denominated in RMB.

## 40 Subsequent events

On 20 March 2012, Synergy Eagle Limited (the "Buyer"), as the buyer, a wholly-owned subsidiary of the Company and, inter alia, an independent third party to the Company (the "Seller"), as the seller, entered into a share purchase agreement (the "Agreement") pursuant to which the Seller has agreed to sell to the Buyer the entire equity interest in Big Step Limited ("Big Step") at a consideration of RMB880,000,000 (subject to adjustments with a maximum cap of RMB920,000,000) (the "Consideration"), which will be satisfied by the Buyer in the following manner:

(1) RMB264,000,000, being 30% of the Consideration payable within 15 business days from the date of the Agreement;

(2) RMB528,000,000, being 60% of the Consideration payable at completion ("Completion"); and

(3) RMB88,000,000, being 10% of the Consideration payable after the last day of the period from the date of Completion (the "Completion Date") up to (and including) the end of the 18th month thereafter.

The Consideration may be adjusted with reference to the net assets of Big Step and its subsidiaries as at the Completion Date.

Big Step and its subsidiaries are principally engaged in the sales and distribution of sportswear products and operate approximately 600 self-managed retail outlets in certain cities of various provinces of the PRC. The products sold by Big Step and its subsidiaries are mainly under the brands of Nike and Adidas, which are generally in line with the existing business of the Group.

Other than the matter disclosed above, there have been no other significant events taken place subsequent to 31 December 2011 until the date of these consolidated financial statements.

## 41 Particulars of principal subsidiaries and associates

At 31 December 2011, the Company had the following principal subsidiaries:

| Name | Issued/ paid-in capital | Interest held | Place of incorporation/ establishment | Principal activities/ place of operation |
|---|---|---|---|---|
| **Directly held:** | | | | |
| Belle International (China) Limited | 10,000,000 shares of HK$1 each | 100% | Hong Kong | Investment holdings and trading of shoes and footwear products/Hong Kong |
| Best Able Footwear Limited | 800,000,000 shares of HK$1 each | 100% | Hong Kong | Investment holdings/Hong Kong |
| Bestfull International Limited | 515,001 shares of HK$1 each | 100% | Hong Kong | Investment holdings/Hong Kong |
| Full Sport Holdings Limited | 10,000,000 shares of HK$1 each | 100% | Hong Kong | Investment holdings/Hong Kong |
| Lai Wah Footwear Trading Limited | 20,000 shares of HK$100 each | 100% | Hong Kong | Investment holdings and trading of shoes and footwear products/Hong Kong |
| Belle Group Limited | 10,000 shares of US$1 each | 100% | British Virgin Island (“BVI”) | Investment holdings/Hong Kong |
| City Talent Group Limited | 1 share of US$1 | 100% | BVI | Investment holdings/Hong Kong |
| Famestep Management Limited | 10,000 shares of US$1 each | 100% | BVI | Investment holdings/Hong Kong |
| Fullbest Investments Limited | 20,000 shares of US$1 each | 100% | BVI | Investment holdings/Hong Kong |

## 41 Particulars of principal subsidiaries and associates (continued)

| Name | Issued/ paid-in capital | Interest held | Place of incorporation/ establishment | Principal activities/ place of operation |
|---|---|---|---|---|
| **Indirectly held:** | | | | |
| Belle Footwear (Hong Kong) Company Limited | 20,000,000 shares of HK$1 each | 100% | Hong Kong | Trading of shoes and footwear products/Hong Kong |
| Belle Worldwide Limited | 3 shares of HK$1 each | 100% | Hong Kong | Property holdings/Hong Kong |
| Full State Corporation Limited | 10,000,000 shares of HK$1 each | 100% | Hong Kong | Investment holdings and trading of shoes and footwear products/Hong Kong |
| Millie's Company Limited | 1,000,000 shares of HK$10 each | 100% | Hong Kong | Trading of shoes and footwear products/Hong Kong |
| Mirabell Footwear Limited | 2 shares of HK$100 each | 100% | Hong Kong | Trademark holdings/Hong Kong |
| Shoesnet Co Limited | 10,000 shares of HK$1 each | 100% | Hong Kong | Property holdings/the PRC |
| Staccato Footwear Limited | 300,000 shares of HK$1 each | 100% | Hong Kong | Trademark holdings/Hong Kong |
| Yitian Network Limited | 10,000,000 shares of HK$1 each | 77.5% | Hong Kong | Investment holdings/Hong Kong |
| Artigiano Footwear Limited | 30,000 shares of MOP1 each | 100% | Macau | Trading of shoes and footwear products/Macau |
| Staccato Footwear (Macau) Company Limited | 2 shares of MOP 12,500 each | 100% | Macau | Trading of shoes and footwear products/Macau |
| Best Sail International Holdings Limited | 4,000 shares of HK$1 each | 60% | Cayman Islands | Investment holdings/Hong Kong |
| Sky Sino Limited | 20,000 shares of US$1 each | 77.5% | Cayman Islands | Investment holdings/Hong Kong |
| Belle (IP) Limited | 100 shares of US$1 each | 100% | Mauritius | Trademark holdings/Macau |
| Staccato (IP) Limited | 100 shares of US$1 each | 100% | Mauritius | Trademark holdings/Macau |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 41 Particulars of principal subsidiaries and associates (continued)

| Name | Issued/ paid-in capital | Interest held | Place of incorporation/ establishment | Principal activities/ place of operation |
|---|---|---|---|---|
| **Indirectly held:** (continued) | | | | |
| 合眾服飾（深圳）有限公司 (Hezhong Apparel (Shenzhen) Limited) # | US$10,000,000 | 100% | The PRC | Manufacturing and trading of shoes, footwear products and apparel/the PRC |
| 廣州市滔搏體育發展有限公司 (Guangzhou Taobo Sports Development Company Limited) # | US$25,000,000 | 100% | The PRC | Operation of sports complex business/the PRC |
| 滔搏商貿（瀋陽）有限公司 (Taobo Trading (Shenyang) Company Limited) # | US$5,000,000 | 100% | The PRC | Operation of sports complex business/the PRC |
| 百朗商貿（深圳）有限公司 (Bailang Trading (Shenzhen) Company Limited) # | US$5,000,000 | 100% | The PRC | Trading of sporting shoes and apparel/the PRC |
| 北京崇德商貿有限公司 (Beijing Chongde Trading Company Limited) # | US$12,000,000 | 100% | The PRC | Trading of sporting shoes and apparel/the PRC |
| 百麗國際鞋業（青島）有限公司 (Belle International Footwear (Qingdao) Company Limited) @ | RMB70,000,000 | 100% | The PRC | Trading of shoes, footwear products, sporting shoes and apparel/the PRC |
| 百麗鞋業（上海）有限公司 (Belle Footwear (Shanghai) Company Limited) # | US$30,000,000 | 100% | The PRC | Trading of shoes, footwear products, sporting shoes and apparel/the PRC |
| 百麗鞋業（北京）有限公司 (Belle Footwear (Beijing) Company Limited) # | US$5,100,000 | 100% | The PRC | Trading of shoes, footwear products, sporting shoes and apparel/the PRC |
| 百麗鞋業（宿州）有限公司 (Belle Footwear (Suzhou) Company Limited) # | US$30,000,000 | 100% | The PRC | Manufacturing and trading of shoes and footwear products/the PRC |

## 41 Particulars of principal subsidiaries and associates (continued)

| Name | Issued/ paid-in capital | Interest held | Place of incorporation/ establishment | Principal activities/ place of operation |
|---|---|---|---|---|
| **Indirectly held:** (continued) | | | | |
| 滔搏體育（上海）有限公司 (Taobo Sports (Shanghai) Company Limited) # | US$12,000,000 | 100% | The PRC | Trading of sporting shoes and apparel/the PRC |
| 麗港鞋業（深圳）有限公司 (Lai Kong Footwear (Shenzhen) Company Limited) # | US$8,771,368 | 100% | The PRC | Manufacturing and trading of shoes and footwear products/the PRC |
| 麗珂貿易（瀋陽）有限公司 (Li'ke Trading (Shenyang) Company Limited) # | US$32,000,000 | 100% | The PRC | Trading of sporting shoes and apparel/the PRC |
| 新百麗鞋業（深圳）有限公司 (New Belle Footwear (Shenzhen) Company Limited) # | US$130,000,000 | 100% | The PRC | Manufacturing and trading of shoes and footwear products/the PRC |
| 青島傳承國際貿易有限公司 (Qingdao Chuancheng International Trading Company Limited) # | US$32,000,000 | 100% | The PRC | Trading of sporting shoes and apparel/the PRC |
| 陝西滔搏體育商貿有限公司 (Shanxi Taobo Sports Trading Company Limited) @ | RMB240,000,000 | 100% | The PRC | Trading of sporting shoes and apparel/the PRC |
| 深圳市滔搏商貿有限公司 (Shenzhen Taobo Trading Company Limited) @ | RMB180,000,000 | 100% | The PRC | Trading of sporting shoes and apparel/the PRC |
| 成都滔搏商貿有限公司 (Chengdu Taobo Trading Company Limited) @ | RMB242,000,000 | 100% | The PRC | Trading of sporting shoes and apparel/the PRC |
| 武漢滔搏商貿有限公司 (Wuhan Taobo Trading Company Limited) @ | US$32,000,000 | 100% | The PRC | Trading of sporting shoes and apparel/the PRC |
| 雲南立鋭體育用品有限公司 (Yunnan Lirui Sports Company Limited) @ | RMB220,750,000 | 100% | The PRC | Trading of sporting shoes and apparel/the PRC |

## 41 Particulars of principal subsidiaries and associates (continued)

| Name | Issued/ paid-in capital | Interest held | Place of incorporation/ establishment | Principal activities/ place of operation |
|---|---|---|---|---|
| **Indirectly held:** (continued) | | | | |
| 江蘇森達鞋業有限公司 (Jiangsu Senda Footwear Company Limited) @ | RMB294,250,000 | 100% | The PRC | Manufacturing and trading of shoes and footwear products/the PRC |
| 上海新百思圖鞋業有限公司 (Shanghai New Basto Footwear Company Limited) @ | RMB50,000,000 | 100% | The PRC | Manufacturing and trading of shoes and footwear products/the PRC |
| 湖北秭歸百麗鞋業有限責任公司 (Hubei Zigui Belle Footwear Company Limited) @ | RMB31,000,000 | 100% | The PRC | Manufacturing of shoes and footwear products /the PRC |
| 深圳百麗商貿有限公司 (Shenzhen Belle Trading Company Limited) @ | RMB20,000,000 | 100% | The PRC | Trading of shoes and footwear products /the PRC |
| 百麗鞋業（瀋陽）商貿有限公司 (Belle Footwear (Shenyang) Trading Company Limited) @ | RMB200,000,000 | 100% | The PRC | Trading of shoes and footwear products /the PRC |
| 百麗鞋業（武漢）有限公司 (Belle Footwear (Wuhan) Company Limited) # | US$10,000,000 | 100% | The PRC | Trading of shoes and footwear products /the PRC |
| 百麗鞋業（成都）有限公司 (Belle Footwear (Chengdu) Company Limited) # | US$20,000,000 | 100% | The PRC | Trading of shoes and footwear products /the PRC |
| 陝西百麗鞋業有限公司 (Shanxi Belle Footwear Company Limited) @ | RMB20,000,000 | 100% | The PRC | Trading of shoes and footwear products /the PRC |
| 新疆百麗鞋業有限公司 (Xinjiang Belle Footwear Company Limited) @ | RMB10,000,000 | 100% | The PRC | Trading of shoes and footwear products /the PRC |
| 雲南百麗鞋業有限公司 (Yunnan Belle Footwear Company Limited) @ | RMB20,000,000 | 100% | The PRC | Trading of shoes and footwear products /the PRC |

## 41 Particulars of principal subsidiaries and associates (continued)

| Name | Issued/ paid-in capital | Interest held | Place of incorporation/ establishment | Principal activities/ place of operation |
|---|---|---|---|---|
| **Indirectly held:** (continued) | | | | |
| 廣州市百麗鞋業有限公司 (Guangzhou Belle Footwear Company Limited) @ | RMB20,000,000 | 100% | The PRC | Trading of shoes and footwear products /the PRC |
| 河南頤和國際商貿有限公司 (Henan Yihe International Trading Company Limited) # | US$1,000,000 | 100% | The PRC | Operation of sports complex business/the PRC |
| 雲南法迅貿易有限公司 (Yunnan Faxun Trading Company Limited) # | US$2,600,000 | 100% | The PRC | Operation of sports complex business/the PRC |
| 廣億貿易（上海）有限公司 (Grand Billion Trading (Shanghai) Company Limited) # | US$9,800,000 | 60% | The PRC | Trading of shoes and footwear products /the PRC |
| 廣州億僮貿易有限公司 (Guangzhou Yitong Trading Company Limited) @ | RMB10,000,000 | 60% | The PRC | Trading of shoes and footwear products /the PRC |
| 優購科技有限公司 (Yougou Technology Company Limited) # | US$10,000,000 | 77.5% | The PRC | Operation of e-Commerce business /the PRC |

\# *The company is established as a wholly foreign-owned enterprise in the PRC.*

@ *The company is established as a limited liability company in the PRC.*

## 41 Particulars of principal subsidiaries and associates (continued)

At 31 December 2011, the Group had the following associates:

| Name | Interest held | Place of establishment | Principal activities/ place of operation |
|---|---|---|---|
| 鶴山市新易高鞋業有限公司 (Heshan New Eagle Footwear Company Limited) @ | 36% | The PRC | Manufacturing of shoes and footwear products/the PRC |
| 宿州百聯尚多皮革有限公司 (Suzhou Bailian Shangduo Leather Company Limited) @ | 45% | The PRC | Manufacturing and processing of leather/the PRC |

@ *The company is established as a limited liability company in the PRC.*

Belle 百麗國際
International