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百 麗 國 際 控 股 有 限 公 司

BELLE INTERNATIONAL HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1880)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2012

FINANCIAL HIGHLIGHTS

			Year ended 31 December	
			2012	2011
Revenue		RMB million	**32,859.0**	28,944.7
Operating profit		RMB million	**5,402.9**	5,264.8
Income tax expense		RMB million	**1,351.4**	1,232.0
Profit attributable to the Company's equity holders		RMB million	**4,352.3**	4,254.6
Gross profit margin		%	**56.6**	57.2
Operating profit margin		%	**16.4**	18.2
Profit margin attributable to the Company's equity holders		%	**13.2**	14.7
Earnings per share	– basic	RMB cents	**51.60**	50.44
	– diluted	RMB cents	**51.60**	50.44
Dividend per share	– interim, paid	RMB cents	**8.00**	7.00
	– final, proposed	RMB cents	**8.00**	8.00

ANNUAL RESULTS

The board of directors (the "Board" or "Directors") of Belle International Holdings Limited (the "Company") is pleased to announce the audited consolidated annual results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2012, together with comparative figures for 2011, as follows:

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2012

		Year end 31 December	
		2012	2011
	Note	**RMB million**	RMB million
Revenue	3	**32,859.0**	28,944.7
Costs of sales		**(14,260.8)**	(12,388.8)
Gross profit		**18,598.2**	16,555.9
Selling and distribution expenses		**(11,081.1)**	(9,212.8)
General and administrative expenses		**(2,387.1)**	(2,192.4)
Other income	4	**272.9**	114.1
Operating profit	5	**5,402.9**	5,264.8
Finance income		**309.4**	224.1
Finance costs		**(40.7)**	(18.8)
Finance income, net	6	**268.7**	205.3
Share of profit of an associate		**4.9**	0.4
		273.6	205.7
Profit before income tax		**5,676.5**	5,470.5
Income tax expense	7	**(1,351.4)**	(1,232.0)
Profit for the year		**4,325.1**	4,238.5
Attributable to:			
Equity holders of the Company		**4,352.3**	4,254.6
Non-controlling interests		**(27.2)**	(16.1)
		4,325.1	4,238.5
Earnings per share attributable to equity holders of the Company during the year	8		
– basic		**RMB51.60 cents**	RMB50.44 cents
– diluted		**RMB51.60 cents**	RMB50.44 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2012

	Year ended 31 December	
	2012	2011
	RMB million	RMB million
Profit for the year	**4,325.1**	4,238.5
Other comprehensive loss		
Exchange differences	**(6.1)**	(10.7)
Other comprehensive loss for the year	**(6.1)**	(10.7)
Total comprehensive income for the year	**4,319.0**	4,227.8
Attributable to:		
Equity holders of the Company	**4,346.2**	4,243.9
Non-controlling interests	**(27.2)**	(16.1)
	4,319.0	4,227.8

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2012

		As at 31 December	
		2012	2011
	Note	**RMB million**	RMB million
ASSETS			
Non-current assets			
Property, plant and equipment		**3,347.2**	2,851.6
Land use rights		**1,290.5**	817.7
Investment properties		**335.4**	11.0
Intangible assets		**2,731.6**	2,790.3
Interests in associates and jointly controlled entities		**109.3**	61.6
Long-term deposits and prepayments		**603.5**	962.8
Deferred income tax assets		**465.6**	370.1
Structured bank deposits		**103.5**	—
		8,986.6	7,865.1
Current assets			
Inventories		**7,032.7**	6,516.6
Trade receivables	10	**3,134.3**	2,745.9
Deposits, prepayments and other receivables		**1,027.3**	1,753.4
Structured bank deposits		**5,642.5**	3,369.1
Term deposits with initial terms of over three months		**492.5**	495.0
Cash and cash equivalents		**2,286.9**	2,886.8
		19,616.2	17,766.8
Non-current assets held for sale		**—**	49.3
		19,616.2	17,816.1
Total assets		**28,602.8**	25,681.2

	Note	As at 31 December 2012 RMB million	2011 RMB million
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital		**83.1**	83.1
Share premium		**9,214.1**	9,214.1
Reserves		**13,123.3**	10,126.5
		22,420.5	19,423.7
Non-controlling interests		**142.9**	170.1
Total equity		**22,563.4**	19,593.8
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		**110.9**	182.8
Deferred income		**69.2**	75.0
		180.1	257.8
Current liabilities			
Trade payables	11	**1,153.3**	1,248.3
Other payables, accruals and other current liabilities		**1,457.6**	1,324.8
Short-term borrowings	12	**2,176.3**	1,895.4
Current income tax liabilities		**1,072.1**	1,361.1
		5,859.3	5,829.6
Total liabilities		**6,039.4**	6,087.4
Total equity and liabilities		**28,602.8**	25,681.2
Net current assets		**13,756.9**	11,986.5
Total assets less current liabilities		**22,743.5**	19,851.6

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2012

		Year ended 31 December	
		2012	2011
	Note	**RMB million**	RMB million
Cash flows from operating activities			
Net cash generated from operations	13	**6,202.0**	3,802.7
PRC corporate income tax paid		**(1,737.0)**	(757.4)
Hong Kong profits tax paid		**(60.7)**	(6.9)
Macau income tax paid		**(10.1)**	(7.1)
Net cash generated from operating activities		**4,394.2**	3,031.3
Cash flows from investing activities			
Capital contribution and loan to associates and jointly controlled entities		**(42.8)**	(61.2)
Prepayments for acquisition of subsidiaries		**(264.0)**	(87.0)
Payments and deposits for purchase of property, plant and equipment, land use rights, investment properties and intangible assets		**(1,520.4)**	(1,697.4)
Proceeds from sale of property, plant and equipment		**12.0**	5.4
Placement of structured bank deposits		**(8,369.0)**	(3,075.0)
Proceeds from maturity of structured bank deposits		**6,045.0**	2,600.0
(Increase)/decrease in term deposits with initial terms of over three months		**(3.3)**	393.3
Net cash used in investing activities		**(4,142.5)**	(1,921.9)
Cash flows from financing activities			
Dividends paid		**(1,349.4)**	(1,939.9)
Interest received		**255.7**	131.9
Interest paid		**(40.7)**	(18.7)
Contribution from non-controlling interests		—	167.7
Proceeds from borrowings		**3,904.2**	1,447.4
Repayments of borrowings		**(3,621.5)**	(170.2)
Net cash used in financing activities		**(851.7)**	(381.8)
Net (decrease)/increase in cash and cash equivalents		**(600.0)**	727.6
Cash and cash equivalents at beginning of the year		**2,886.8**	2,172.5
Effect on foreign exchange		**0.1**	(13.3)
Cash and cash equivalents at end of the year		**2,286.9**	2,886.8

Note

1 General Information

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 Floor 4, Willow House, Cricket Square, P.O. Box 2804, Grand Cayman KY1-1112, Cayman Islands.

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

The consolidated financial statements are presented in Renminbi ("RMB"), unless otherwise stated, and have been approved for issue by the Board of Directors on 25 March 2013.

2 Basis of preparation and accounting policies

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.

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

(a) Effect of adopting amendments to standards

The following amendments to standards are mandatory for accounting periods beginning on or after 1 January 2012. The adoption of these amendments to standards does not have any significant impact to the results and financial position of the Group.

IFRS 1 (amendment)	Severe hyperinflation and removal of fixed dates for first-time adopters
IFRS 7 (amendment)	Disclosures – transfers of financial assets
International Accounting Standard ("IAS") 12 (amendment)	Deferred tax – recovery of underlying assets

(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 2012 and have not been early adopted by the Group:

IFRSs (amendment)	Improvements to IFRSs 2011 (1)
IFRS 1 (amendment)	Government loans (1)
IFRS 7 (amendment)	Disclosures – offsetting financial assets and financial liabilities (1)
IFRS 7 (amendment)	Mandatory effective date of IFRS 9 and transition disclosures (3)
IFRS 9	Financial instruments (3)
Additions to IFRS 9	Financial instruments – financial liabilities (3)
IFRS 10	Consolidated financial statements (1)
IFRS 11	Joint arrangements (1)
IFRS 12	Disclosure of interests in other entities (1)
IFRS 10, IFRS 11 and IFRS 12 (amendment)	Consolidated financial statements, joint arrangements and disclosure of interests in other entities: Transition guidance (1)
IFRS 10, IFRS 12 and IAS 27 (2011) (amendment)	Investment entities (2)
IFRS 13	Fair value measurements (1)
IAS 1 (amendment)	Presentation of financial statements (1)
IAS 19 (2011)	Employee benefits (1)
IAS 27 (2011)	Separate financial statements (1)
IAS 28 (2011)	Investments in associates and joint ventures (1)
IAS 32 (amendment)	Financial instruments: Presentation – Offsetting financial assets and financial liabilities (2)
IFRIC Int 20	Stripping costs in the production phase of a surface mine (1)

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

(c) Change in rounding of amounts

Prior to 2011, the consolidated financial statements of the Company were presented in thousands of units of RMB. Amounts in the consolidated financial statements for the current year have been rounded off in million of units of RMB to one decimal place, unless otherwise stated.

3 Segment information

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

	Year ended 31 December 2012				
	Shoes and footwear products RMB million	**Sportswear products RMB million**	**Total reportable segments RMB million**	**Unallocated RMB million**	**Total RMB million**
Revenue					
Sales of goods	**21,045.3**	**11,739.4**	**32,784.7**	**—**	**32,784.7**
Commissions from concessionaire sales	**—**	**74.3**	**74.3**	**—**	**74.3**
	21,045.3	**11,813.7**	**32,859.0**	**—**	**32,859.0**
Results of reportable segments	**5,008.8**	**480.7**	**5,489.5**	**—**	**5,489.5**

Reconciliation of results of reportable segments to profit for the year

Results of reportable segments	**5,489.5**
Amortization of intangible assets	**(70.0)**
Unallocated income	**19.4**
Unallocated expenses	**(36.0)**
Operating profit	**5,402.9**
Finance income	**309.4**
Finance costs	**(40.7)**
Share of profit of an associate	**4.9**
Profit before income tax	**5,676.5**
Income tax expense	**(1,351.4)**
Profit for the year	**4,325.1**

	Shoes and footwear products	Sportswear products	Total reportable segments	Unallocated	Total
Other segment information					
Depreciation on property, plant and equipment	**500.9**	**298.2**	**799.1**	**16.8**	**815.9**
Amortization of land use rights	**11.2**	**8.4**	**19.6**	**—**	**19.6**
Amortization of intangible assets	**69.4**	**0.6**	**70.0**	**—**	**70.0**
Depreciation on investment properties	**—**	**—**	**—**	**0.7**	**0.7**
Write-off of property, plant and equipment	**3.4**	**2.5**	**5.9**	**—**	**5.9**
Loss/(gain) on disposal of property, plant and equipment	**7.7**	**(0.3)**	**7.4**	**—**	**7.4**
(Reversal of impairment)/impairment losses of inventories	**(13.0)**	**20.0**	**7.0**	**—**	**7.0**
Additions to non-current assets	**970.3**	**350.4**	**1,320.7**	**199.7**	**1,520.4**

	As at 31 December 2012				
	Shoes and footwear products RMB million	Sportswear products RMB million	Total reportable segments RMB million	Unallocated RMB million	Total RMB million
Segment assets	14,157.0	6,496.2	20,653.2	—	20,653.2
Goodwill	1,710.3	485.3	2,195.6	—	2,195.6
Other intangible assets	536.0	—	536.0	—	536.0
Inter-segment balances elimination	(3,974.7)	—	(3,974.7)	—	(3,974.7)
	12,428.6	6,981.5	19,410.1	—	19,410.1
Investment properties	—	—	—	335.4	335.4
Term deposits with initial terms of over three months	—	—	—	492.5	492.5
Structured bank deposits	—	—	—	5,746.0	5,746.0
Deferred income tax assets	—	—	—	465.6	465.6
Interests in associates and jointly controlled entities	—	—	—	109.3	109.3
Other corporate assets	—	—	—	2,043.9	2,043.9
Total assets per consolidated balance sheet	12,428.6	6,981.5	19,410.1	9,192.7	28,602.8
Segment liabilities	1,644.7	4,995.3	6,640.0	—	6,640.0
Inter-segment balances elimination	—	(3,974.7)	(3,974.7)	—	(3,974.7)
	1,644.7	1,020.6	2,665.3	—	2,665.3
Short-term borrowings	—	—	—	2,176.3	2,176.3
Current income tax liabilities	—	—	—	1,072.1	1,072.1
Deferred income tax liabilities	—	—	—	110.9	110.9
Other corporate liabilities	—	—	—	14.8	14.8
Total liabilities per consolidated balance sheet	1,644.7	1,020.6	2,665.3	3,374.1	6,039.4

	Year ended 31 December 2011				
	Shoes and footwear products RMB million	Sportswear products RMB million	Total reportable segments RMB million	Unallocated RMB million	Total RMB million
Revenue					
Sales of goods	18,532.6	10,345.5	28,878.1	—	28,878.1
Commissions from concessionaire sales	—	66.6	66.6	—	66.6
	18,532.6	10,412.1	28,944.7	—	28,944.7
Results of reportable segments	4,679.4	676.4	5,355.8	—	5,355.8

Reconciliation of results of reportable segments to profit for the year

Results of reportable segments	5,355.8
Amortization of intangible assets	(53.2)
Unallocated income	4.2
Unallocated expenses	(42.0)
Operating profit	5,264.8
Finance income	224.1
Finance costs	(18.8)
Share of profit of an associate	0.4
Profit before income tax	5,470.5
Income tax expense	(1,232.0)
Profit for the year	4,238.5

	Shoes and footwear products RMB million	Sportswear products RMB million	Total reportable segments RMB million	Unallocated RMB million	Total RMB million
Other segment information					
Depreciation on property, plant and equipment	456.1	221.3	677.4	16.1	693.5
Amortization of land use rights	8.3	7.4	15.7	—	15.7
Amortization of intangible assets	52.8	0.4	53.2	—	53.2
Depreciation on investment properties	—	—	—	0.7	0.7
Write-off of property, plant and equipment	4.4	1.9	6.3	—	6.3
Loss on disposal of property, plant and equipment	4.5	0.1	4.6	—	4.6
Impairment losses of inventories	26.7	—	26.7	—	26.7
Additions to non-current assets	943.8	333.4	1,277.2	420.2	1,697.4

	As at 31 December 2011				
	Shoes and footwear products RMB million	Sportswear products RMB million	Total reportable segments RMB million	Unallocated RMB million	Total RMB million
Segment assets	12,737.6	6,361.5	19,099.1	—	19,099.1
Goodwill	1,710.3	485.3	2,195.6	—	2,195.6
Other intangible assets	594.3	0.4	594.7	—	594.7
Inter-segment balances elimination	(2,168.3)	—	(2,168.3)	—	(2,168.3)
	12,873.9	6,847.2	19,721.1	—	19,721.1
Investment properties	—	—	—	11.0	11.0
Non-current assets held for sale	—	—	—	49.3	49.3
Term deposits with initial terms of over three months	—	—	—	495.0	495.0
Structured bank deposits	—	—	—	3,369.1	3,369.1
Deferred income tax assets	—	—	—	370.1	370.1
Interests in associates and jointly controlled entities	—	—	—	61.6	61.6
Other corporate assets	—	—	—	1,604.0	1,604.0
Total assets per consolidated balance sheet	12,873.9	6,847.2	19,721.1	5,960.1	25,681.2
Segment liabilities	1,576.8	3,226.4	4,803.2	—	4,803.2
Inter-segment balances elimination	—	(2,168.3)	(2,168.3)	—	(2,168.3)
	1,576.8	1,058.1	2,634.9	—	2,634.9
Short-term borrowings	—	—	—	1,895.4	1,895.4
Current income tax liabilities	—	—	—	1,361.1	1,361.1
Deferred income tax liabilities	—	—	—	182.8	182.8
Other corporate liabilities	—	—	—	13.2	13.2
Total liabilities per consolidated balance sheet	1,576.8	1,058.1	2,634.9	3,452.5	6,087.4

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	
	2012	2011
	RMB million	RMB million
Revenue		
The PRC	**31,212.3**	27,442.7
Hong Kong and Macau	**1,217.6**	1,209.1
Other locations	**429.1**	292.9
	32,859.0	28,944.7

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 2012			As at 31 December 2011		
	The PRC	**Hong Kong and Macau**	**Total**	The PRC	Hong Kong and Macau	Total
	RMB million	**RMB million**	**RMB million**	RMB million	RMB million	RMB million
Non-current assets						
Property, plant and equipment	**3,000.4**	**346.8**	**3,347.2**	2,490.8	360.8	2,851.6
Land use rights	**1,290.5**	**—**	**1,290.5**	817.7	—	817.7
Investment properties	**286.1**	**49.3**	**335.4**	11.0	—	11.0
Intangible assets	**2,659.8**	**71.8**	**2,731.6**	2,718.5	71.8	2,790.3
Long-term deposits and prepayments	**557.2**	**46.3**	**603.5**	924.8	38.0	962.8
Interests in associates and jointly controlled entities	**109.3**	**—**	**109.3**	61.6	—	61.6

4 Other income

	Year ended 31 December	
	2012	2011
	RMB million	RMB million
Rental income	**19.4**	4.2
Government incentives	**253.5**	109.9
	272.9	114.1

5 Operating profit

Operating profit is stated after charging the following:

	Year ended 31 December	
	2012	2011
	RMB million	RMB million
Costs of inventories recognized as expenses included in costs of sales	**14,258.1**	12,384.7
Depreciation on property, plant and equipment	**815.9**	693.5
Depreciation on investment properties	**0.7**	0.7
Amortization of intangible assets	**70.0**	53.2
Amortization of land use rights	**19.6**	15.7
Operating lease rentals (mainly including concessionaire fees) in respect of land and buildings	**6,924.6**	6,003.5
Staff costs (including directors' emoluments)	**4,767.2**	3,907.2
Loss on disposal of property, plant and equipment	**7.4**	4.6
Write-off of property, plant and equipment	**5.9**	6.3
Impairment losses of inventories	**7.0**	26.7
Auditor's remuneration	**10.7**	10.2

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

6 Finance income, net

	Year ended 31 December	
	2012	2011
	RMB million	RMB million
Interest income on bank deposits	**105.2**	58.1
Interest income from structured bank deposits	**197.6**	135.5
Net foreign exchange gains	**6.6**	30.5
	309.4	224.1
Interest expense on short-term bank borrowings, wholly repayable within 5 years	**(40.7)**	(18.8)
Finance income, net	**268.7**	205.3

7 Income tax expense

	Year ended 31 December	
	2012	2011
	RMB million	RMB million
Current income tax		
– PRC corporate income tax	**1,526.1**	1,410.9
– Hong Kong profits tax	**22.6**	20.6
– Macau income tax	**11.0**	11.6
(Over)/under-provision in prior years		
– PRC corporate income tax	**(30.6)**	(27.2)
– Hong Kong profits tax	**(10.5)**	4.2
– Macau income tax	**0.2**	0.1
Deferred income tax	**(167.4)**	(188.2)
	1,351.4	1,232.0

8 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	
	2012	2011
Profit attributable to equity holders of the Company *(RMB million)*	**4,352.3**	4,254.6
Weighted average number of ordinary shares for the purpose of basic earnings per share *(thousand of shares)*	**8,434,233**	8,434,233
Basic earnings per share *(RMB cents per share)*	**51.60**	50.44

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.

9 Dividends

	Year ended 31 December	
	2012	2011
	RMB million	RMB million
Interim dividend, paid, of RMB8.0 cents (2011: RMB7.0 cents) per ordinary share *(note (a) and (c))*	**674.7**	590.4
Final dividend, proposed, of RMB8.0 cents (2011: RMB8.0 cents) per ordinary share *(note (b) and (c))*	**674.7**	674.7
	1,349.4	1,265.1

Notes:

(a) At a meeting held on 21 August 2012, the directors declared an interim dividend of RMB8.0 cents per ordinary share (totaling RMB674.7 million) for the year ended 31 December 2012. The amount was paid during the year ended 31 December 2012.

(b) At a meeting held on 25 March 2013, the directors recommended the payment of a final dividend of RMB8.0 cents per ordinary share (totaling RMB674.7 million) for the year ended 31 December 2012. 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 2013.

(c) At a meeting held on 25 August 2011, the directors declared an interim dividend of RMB7.0 cents per ordinary share (totaling RMB590.4 million) for the year ended 31 December 2011. The amount was paid during the year ended 31 December 2011.

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 RMB674.7 million) for the year ended 31 December 2011. The amount was paid during the year ended 31 December 2012.

10 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 2012, the aging analysis of trade receivables, based on invoice date, is as follows:

	As at 31 December	
	2012	2011
	RMB million	RMB million
0 to 30 days	**3,067.7**	2,688.5
31 to 60 days	**30.3**	27.1
61 to 90 days	**26.5**	14.8
Over 90 days	**9.8**	15.5
	3,134.3	2,745.9

The carrying amounts of trade receivables approximate their fair values.

11 Trade payables

The credit periods granted by suppliers generally range from 0 to 60 days. At 31 December 2012, the aging analysis of trade payables is as follows:

	As at 31 December	
	2012	2011
	RMB million	RMB million
0 to 30 days	**948.0**	1,091.0
31 to 60 days	**190.4**	146.5
Over 60 days	**14.9**	10.8
	1,153.3	1,248.3

The carrying amounts of trade payables approximate their fair values.

12 Short-term borrowings

As at 31 December 2012, the Group's bank borrowings were carried at floating rates and the weighted average effective interest rate was 1.97% (2011: 1.95%) 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.

13 Reconciliation of profit for the year to net cash generated from operations

	Year ended 31 December	
	2012	2011
	RMB million	RMB million
Profit for the year	**4,325.1**	4,238.5
Adjustments for:		
Income tax expense	**1,351.4**	1,232.0
Share of profit of an associate	**(4.9)**	(0.4)
Amortization of land use rights and intangible assets	**89.6**	68.9
Depreciation on property, plant and equipment	**815.9**	693.5
Depreciation on investment properties	**0.7**	0.7
Impairment losses of inventories	**7.0**	26.7
Loss on disposal of property, plant and equipment	**7.4**	4.6
Write-off of property, plant and equipment	**5.9**	6.3
Interest income	**(302.8)**	(193.6)
Interest expense	**40.7**	18.7
Others	**(13.9)**	(16.5)
	6,322.1	6,079.4
Changes in working capital:		
Decrease/(increase) in long-term deposits and prepayments	**27.5**	(46.8)
Increase in inventories	**(523.1)**	(1,684.1)
Increase in trade receivables	**(388.4)**	(626.2)
Decrease/(increase) in deposits, prepayments and other receivables	**726.1**	(401.2)
(Decrease)/increase in trade payables	**(95.0)**	142.5
Increase in other payables, accruals, other current and non-current liabilities	**132.8**	339.1
Net cash generated from operations	**6,202.0**	3,802.7

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

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

Company-owned brands of the footwear business include Belle, Teenmix, Tata, Staccato, Senda, Basto, Jipi Japa, Millie's, Joy & Peace, :15MINS, Mirabell, etc. Distribution brands include Bata, Clarks, Hush Puppies, Mephisto, BCBG, Merrell, 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 in two different models, brand licensing and retail distribution.

In contrast to the footwear business, the majority of our sportswear business is in the form of retail distribution, including first-tier sportswear brands Nike and Adidas, and second-tier sportswear brands PUMA, Converse, 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 approximately 90% of the sales of the sportswear business; Second, their operational, managerial and performance characteristics - Nike and Adidas have much better brand recognition among Chinese consumers and broader product offerings, as a result their store productivity is much higher than second-tier brands and thus profitability is also stronger.

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 2012.

	Number of Company-managed Retail Outlets						
	Footwear			**Sportswear**			
Region	**Company–owned brands**	**Distribution brands**	**Sub-total**	**First-tier brands**	**Second-tier brands**	**Sub-total**	**Total**
Shandong and Henan	1,415	41	1,456	1,043	497	1,540	2,996
Eastern China	1,695	248	1,943	700	157	857	2,800
Northern China	1,711	163	1,874	604	170	774	2,648
Southern China	1,775	124	1,899	441	136	577	2,476
North-eastern China	999	89	1,088	403	88	491	1,579
North-western China	970	103	1,073	245	52	297	1,370
South-western China	822	67	889	297	15	312	1,201
Central China	733	76	809	248	77	325	1,134
Yunnan and Guizhou	624	31	655	209	92	301	956
Guangzhou	390	14	404	–	–	–	404
Total	11,134	956	12,090	4,190	1,284	5,474	17,564

Note: In addition, the Group operates 148 company-managed retail outlets in Hong Kong and Macau.

Financial review

The Group continued to benefit from steady growth. During the year ended 31 December 2012, the Group recorded revenue and operating profit of RMB32,859.0 million and RMB5,402.9 million respectively, achieving growth rate of 13.5% and 2.6% respectively. The profit attributable to the Company's equity holders during the year amounted to RMB4,352.3 million, an increase of 2.3% comparing with that of last year, which is basically in line with the growth rate of operating profit.

Revenue

The Group's revenue increased by 13.5% to RMB32,859.0 million in 2012 from RMB28,944.7 million in 2011. This was mainly attributable to the continuously steady growth of sales generated from both 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 RMB2,512.7 million and RMB1,401.6 million respectively, from RMB18,532.6 million and RMB10,412.1 million in 2011 to RMB21,045.3 million and RMB11,813.7 million in 2012.

	Year ended 31 December				
	2012		2011		
	Revenue	**% of total**	Revenue	% of total	Growth rate
Footwear					
Company-owned brands	**18,741.8**	**57.0%**	16,713.7	57.7%	12.1%
Distribution brands	**1,874.4**	**5.7%**	1,526.0	5.3%	22.8%
International trade	**429.1**	**1.3%**	292.9	1.0%	46.5%
Sub-total	**21,045.3**	**64.0%**	18,532.6	64.0%	13.6%
Sportswear					
First-tier sportswear brands*	**10,434.3**	**31.8%**	9,075.5	31.4%	15.0%
Second-tier sportswear brands*	**1,301.0**	**4.0%**	1,229.2	4.2%	5.8%
Other sportswear business	**78.4**	**0.2%**	107.4	0.4%	(27.0%)
Sub-total	**11,813.7**	**36.0%**	10,412.1	36.0%	13.5%
Total	**32,859.0**	**100.0%**	28,944.7	100.0%	13.5%

Unit: RMB million

* *The first-tier sportswear brands include Nike and Adidas. The second-tier sportswear brands include PUMA, Converse, 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 2.6% to RMB5,402.9 million. The profit attributable to the Company's equity holders increased by 2.3% to RMB4,352.3 million.

	Year ended 31 December					
	2012		2011		Growth rate	
	Footwear RMB million	**Sportswear RMB million**	Footwear RMB million	Sportswear RMB million	Footwear %	Sportswear %
Revenue	**21,045.3**	**11,813.7**	18,532.6	10,412.1	13.6	13.5
Costs of sales	**(6,830.4)**	**(7,430.4)**	(5,786.6)	(6,602.2)	18.0	12.5
Gross Profit	**14,214.9**	**4,383.3**	12,746.0	3,809.9	11.5	15.1
Gross profit margin (%)	**67.5**	**37.1**	68.8	36.6		

Costs of sales increased by 15.1% from RMB12,388.8 million in 2011 to RMB14,260.8 million in 2012. Gross profit increased by 12.3% from RMB16,555.9 million in 2011 to RMB18,598.2 million in 2012. Gross profit of the Group's footwear segment increased by 11.5% from RMB12,746.0 million in 2011 to RMB14,214.9 million in 2012. Gross profit of the sportswear segment increased by 15.1% from RMB3,809.9 million in 2011 to RMB4,383.3 million in 2012.

Owing to differences in the respective business models, sportswear products generally have lower gross profit margin than footwear products. Although there was no change in the proportion of footwear's and sportswear's sales to the Group's sales, the Group's gross profit margin as a whole decreased slightly to 56.6% in 2012 from 57.2% in 2011, as a result of the slight decrease in the gross profit margin of the footwear business.

During the year, the gross profit margin of the footwear business and the sportswear business was 67.5% and 37.1% respectively. The gross profit margin of the footwear business was slightly lower than that of the prior year. The main reasons are as follows. First, in 2011 market sentiment was strong and price increase was fairly high for footwear products, which in turn resulted in a gross profit margin higher than our historical norm. Second, the business mix was gradually changing within our footwear business. With the gradual development of new businesses including eCommerce, overall gross profit margin will trend down over time. Third, the distribution agreement for GEOX was expiring and both parties opted for not renewing the contract. Gross profit margin of the discontinued brand was significantly down in the final months due to inventory clearance. Whereas no material change was observed in the gross profit margin of the sportswear business when compared with that of last year.

Selling and distribution expenses in 2012 amounted to RMB11,081.1 million (2011: RMB9,212.8 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 2012 amounted to RMB2,387.1 million (2011: RMB2,192.4 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 were 33.7% (2011: 31.8%) and 7.3% (2011: 7.6%) respectively.

Interest income increased from RMB193.6 million in 2011 to RMB302.8 million in 2012. It is mainly due to the increase in both the structured bank deposits with higher interest rate earned and the corresponding deposit interest rates in 2012.

Interest expense increased to RMB40.7 million in 2012 from RMB18.8 million of last year, as a result of the increase in the Group's bank borrowings. During the year, there was not much fluctuation in exchange rate of Renminbi against Hong Kong dollars, the Group recorded net foreign exchange gains of RMB6.6 million (2011: RMB30.5 million).

Income tax expense in 2012 amounted to RMB1,351.4 million (2011: RMB1,232.0 million). The effective income tax rate increased by 1.3 percentage points to 23.8% in 2012 from 22.5% last year. The main reasons are as follows. First, the applicable income tax rate for New Belle Footwear (Shenzhen) Limited ("New Belle"), a major operating unit for the footwear business in Mainland China, was 24% in 2011. From 2012 onwards, New Belle is subject to an income tax rate of 25%. Second, He Zhong Apparel (Shenzhen) Limited ("He Zhong"), another important operating unit of the Group in the footwear business, was subject to 50% reduction in the prevailing tax rate in the region in both 2011 and 2012, at 12% and 12.5%, respectively. From 2013 onwards, He Zhong will be subject to the full income tax rate of 25%. On the other hand, the corporate income tax rate for the other operating units of the footwear business and the sportswear business is approximately 25%.

Other Income

Other income consists mainly of government incentives and rental income amounted to RMB272.9 million (2011: RMB114.1 million).

Capital Expenditure

The Group's capital expenditures primarily comprised of payments and deposits for purchase of property, plant and equipment, land use rights, investment properties and intangible assets. During the year ended 31 December 2012, the total capital expenditure was RMB1,520.4 million (2011: RMB1,697.4 million).

Liquidity and Financial Resources

The Group maintains a strong and healthy balance sheet. As at 31 December 2012, the net working capital of the Group was RMB13,756.9 million, representing an increase of 14.8% as compared to that as at 31 December 2011. As at 31 December 2012, the Group's gearing ratio was 7.6% (31 December 2011: 7.4%) (gearing ratio is calculated using the following formula: Total Borrowings / Total Assets). The Group's current ratio was 3.3 times (31 December 2011: 3.1 times) (current ratio is calculated using the following formula: Current Assets / Current Liabilities).

During the year, cash flows from operating activities increased by RMB2,399.3 million from RMB3,802.7 million in 2011 to RMB6,202.0 million in 2012.

Net cash used in investing activities for the year ended 31 December 2012 was RMB4,142.5 million (2011: RMB1,921.9 million). During the year, the Group invested RMB2,324.0 million, RMB1,520.4 million and RMB 264.0 million on net deposit in structured bank deposits, payments and deposits for purchase of property, plant and equipment (including retail outlets' decorations), land use rights, investment properties and intangible assets and prepayments for acquisition of subsidiaries respectively.

During the year, net cash used in financing activities was RMB851.7 million (2011: RMB381.8 million), mainly attributable to the 2011 final dividend payment of RMB674.7 million and the 2012 interim dividend payment of RMB674.7 million, and partly offset by net proceeds from borrowings of RMB282.7 million and interest received of RMB255.7 million.

As at 31 December 2012, the Group held cash and cash equivalents, structured bank deposits and term deposits with initial terms of over three months totaling RMB8,525.4 million (31 December 2011: RMB6,750.9 million), and was in a net cash position of RMB6,349.1 million (31 December 2011: RMB4,855.5 million) after netting off the short-term borrowings of RMB2,176.3 million (31 December 2011: RMB1,895.4 million).

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

The global economic environment continued to be filled with challenges in 2012. Many of the major economies experienced sluggish demand and struggled with debt. Various structural issues continued to emerge, such as the fiscal cliff in the United States and the debt crisis in the Eurozone, seriously hurting economic recovery and consumer confidence. Various geopolitical issues in certain regions, on the other hand, overshadowed affected countries and relevant markets.

Because of timely adjustments to macroeconomic policies China avoided the risk of a hard landing in its economy. However growth slowed down significantly, with the GDP growing at 7.8% for the full year. This likely marked the end of the high-growth era in the past decade, and the beginning of a moderate-growth era associated with structural adjustment and quality improvement.

Weakness in the macroeconomic environment no doubt had a negative impact on the consumer retail market, mainly because of low consumer confidence and weak sentiment, and not due to lower income. According to the National Bureau of Statistics, per capita disposable income for urban residents increased by 12.6% on a nominal basis. Real income increased by 9.6%, a faster pace than 2011. Nonetheless worries over the macroeconomic environment and outlook did create a significant overhang on consumer sentiment. The middle-end and mid-to-high-end market as represented by the department store channel continued to experience lower traffic and more cautious consumer behavior, leading to slower same store sales growth and adding pressure on the business development of the Group.

In our view, on the one hand, future growth rate will be moderate in the consumer retail market, due to higher base and an overall slowdown of the economy. The decade-long supernormal growth period will not continue. On the other hand, the ultimate drivers of the consumer retail market are still income growth and an expanding customer base. With overall wages rising, especially for the low income groups, there is enormous potential in the long term for the consumer retail market.

Review of the footwear business

In 2012 the footwear business of the Group continued to grow at a steady pace. Revenue reached RMB21,045.3 million, an increase of 13.6% compared with the prior year. Admittedly such a growth rate represented a slowdown in growth momentum from the previous two years when the annual growth was around 25%. The main reasons are as follows. First, the new brands acquired by the Group five years ago experienced an exceptionally high-growth period in 2010 and 2011 after initial integration. Second, in 2012 there was overall weakness in the channels and the whole sector, with same store sales growth far lower than the previous two years. Third, in recent years the footwear business of the Group continued to penetrate into third-tier and fourth-tier cities at a relatively fast pace. New stores in lower tier markets usually have fairly low sales productivity, due to lower levels of income, limited size of the target customer group, and underdevelopment of the modern retail channel.

Same store sales growth was about 4% for the full year. Average selling price was only marginally up from last year. A very low price increase, on the one hand, reflects a benign cost environment, and on the other hand would be instrumental in stabilizing our consumer base and maintaining the market positioning of our brands.

The Group continued to expand the store network in the footwear business. In 2012 we added 1,820 footwear stores, net. Company-managed footwear stores reached 12,090 as at 31 December 2012, an increase of 17.7% from the 10,270 stores as at 31 December 2011. Continued momentum in new store opening is mainly due to the multi-brand strategy of the Group, and increased penetration of modern retail channels into lower tier markets. As at 31 December 2012, the Group operates company-managed footwear stores in about 350 cities across China, adding direct retail coverage in more than 40 new cities during the year.

The gross profit margin of the footwear business was 67.5%, lower than the prior year by about 1 percentage point. The main reasons are as follows. First, there was a high base last year. In 2011 market sentiment was strong and price increase was fairly high for footwear products, which in turn resulted in a gross profit margin higher than our historical norm. Second, the business mix was gradually changing within our footwear business. With the gradual development of new businesses including eCommerce, overall gross profit margin will trend down over time. Third, the distribution agreement for GEOX was expiring and both parties opted for not renewing the contract. Gross profit margin of the discontinued brand was significantly down in the final months due to inventory clearance.

Expenses as a percentage of sales were slightly higher in the footwear business. Retail staff expenses, including wages and social security, were significantly higher as a percentage of sales, by about 1 percentage point. There are two major reasons. On the one hand, wages continued to rise. On the other hand, same store sales growth was low, which was not enough to offset the dilution of new stores with lower productivity. Average per store sales productivity was down by a small margin. Various operating, general and administrative expenses, other than staff expenses, were largely stable or slightly up as a percentage of sales. Higher expenses, as discussed above, were to a certain extent offset by increase in government subsidies. As a result, overall expenses were only marginally up as a percentage of sales.

In conclusion, the operating performance of the footwear business was not on par with the prior year, and also slightly lower than prior expectations of management. Sales growth slowed down. Profitability was also slightly lower.

In our view, the slowdown in growth momentum of the footwear business is closely related to the macro level slowdown in the Chinese economy entering a new phase of development. It was also reflective of the temporary weakness in the consumer retail market especially in the department store channel. Our brands, although experiencing a slowdown in a weak environment, did not lose competitiveness in the marketplace. According to data collected by the Group from about 2,000 department stores across the country, footwear brands operated by the Group continued to gain market share, growing faster than the footwear section and the department stores as a whole.

The profit margin of segment results for the footwear business was lower by more than 1 percentage point from the prior year. Excluding the impact of higher government subsidies, the decline would have been more pronounced. As discussed above, 2011 was an exceptional year in that market conditions were favorable and our footwear business achieved a profit margin higher than our historical range. Apart from an unfavorable comparison with a high base in 2011, there are the following major reasons contributing to a lower profit margin of segment results for the footwear business in 2012. First, in the GEOX business we incurred operational losses in 2012 prior to its discontinuation, which was in sharp contrast to a profitable 2011 for this brand. Second, we continued to ramp up investment in new initiatives including the eCommerce business, which incurred operating losses during the year. While the losses were largely in line with expectations, the impact on the bottom line of the Group was much larger than in 2011. Third, the retail business in Mainland China was temporarily under pressure, with same store sales growth far lower than the prior year. Average per store sales productivity was lower than the prior year. Operating expenses especially the more sticky expenses such as wages and social security expenses were significantly higher as a percentage of sales. Fourth, the retail business in Hong Kong and Macau, while still growing, experienced much lower growth rate than that in 2011. At the same time, rent was going up at a fast pace in Hong Kong, and staff cost was also increasing, resulting in a notably lower profit margin than the prior year.

The first factor discussed above was a one-off issue and not recurring in 2013. On the second issue, these new initiatives, being strategic investments undertaken by the Group, will continue into the future. But the operating losses from the new initiatives are not expected to expand further. The last two factors discussed above are expected to continue in the near future. The retail businesses in Mainland China and Hong Kong are not expected to quickly recover in the near term, not enough to offset the overhang of higher expenses. Expenses as a percentage of sales likely will continue to edge higher. However, due to lower base and thus easier comparison the year-on-year erosion of profitability is expected to be smaller than that experienced in 2012.

In the current market environment where traffic is slow in the department store channel and consumer sentiment is weak, the Group plans to reasonably slow down retail network expansion, which potentially will help to alleviate the pressure on the existing business from new stores with low productivity. A moderate and reasonable pace of network expansion will also enable us to focus our human resources and managerial resources on the key task of improving same store sales. At the same time the Group will continue to explore new business opportunities, target new market segments and develop new channels, in an effort to create a solid launch-pad for long term sustainable growth of the Group.

It is the view of the Group that over the long term the business priority of the Group should be more focused toward growth and market penetration in order to maximize business value of the Group. This is based on the fact that our footwear business earns a profit margin well above industry peers, and a return on capital well above the cost of capital to the Group. Profit margin, in and of itself, is not the only key metric in defining our business strategy. If we were to manage the footwear business with profitability as the single most important guide and metric, we will be at risk of being short-sighted in developing our business, being less competitive than we could be, and missing out on long term business opportunities. New incremental businesses, including new stores, new brands, new channels and new store formats, might be less profitable in the short term or even loss making. From a long term strategic point of view we still have to make a business judgment. On opportunities with potential value we are committed to maintain and increase investment in order to maintain the long term competitiveness and industry leadership of the Group.

Review of the sportswear business

In 2012 the sportswear business recorded revenue of RMB11,813.7 million, an increase of 13.5% compared with the prior year. Same store sales growth was close to 4% for the full year, with minimal volume growth and mostly driven by price increase. The increase in average selling price was mainly driven by changes in the category mix, with higher priced athletic shoes growing faster and taking share while athletic apparel with lower ticket price growing slower and losing share.

The Group continued to grow the store network in the sportswear business. In 2012 we added 794 sportswear stores, net. Company-managed sportswear stores reached 5,474 as at 31 December 2012, an increase of 17.0% from the 4,680 stores as at 31 December 2011. As at 31 December 2012 the Group operates company-managed sportswear stores in over 300 cities across China, adding direct retail coverage in more than 10 new cities during the year.

In 2012 the gross profit margin of the sportswear business was slightly higher than the prior year. This was not because of a resilient retail discount rate. On the contrary, during the year the market was still struggling with excess inventory. In order to clear the excess inventory off the channels, brand companies on the one hand reduced targets for futures order and on the other hand took a leadership role in coordinating more promotions at a larger scale, resulting in an overall retail discount rate that was significantly lower than the prior year. At the same time brand companies provided more support to distributors to help them reduce purchase cost and maintain gross profit margins.

The pressure on the sportswear business was mainly from expenses. In 2012 expenses as a percentage of sales in the sportswear business was up by almost 3 percentage points compared with the prior year. The profit margin of segment results for the sportswear business was lower by 2.4 percentage points from the prior year. The main reasons are as follows. First, same store sales growth was low and not enough to offset the negative impact from new stores with lower sales productivity. Average per store sales productivity was lower than the prior year, resulting in an operating deleverage. With wages growing at a fast pace and higher social security requirements, staff expenses including wages and social security expenses were significantly higher as a percentage of sales, with a negative impact of greater than 1 percentage point on the profit margin of segment results for the sportswear business. Second, the Group decided to discontinue the business development for certain distribution brand in an effort to optimize the brand portfolio. Before the termination of such brand gross profit margin was significantly down and sales per store were also much lower. There was an operating loss for these brands for the year, which was a significant shortfall from the positive earnings contributor in the prior year. Meanwhile there were inventory provisions and write-off of store assets for such discontinued brand, adding further pressure on profit margins in 2012.

The overall sportswear market is still faced with a number of challenges. To most local athletic brands the main challenges include: excess inventories accumulated from the past, lower store productivity and thus higher retail expenses, and continued negative growth in futures orders which presented brand companies with pressure from operating deleverage. To leading international athletic brands, which the Group carries, there are 4 major challenges. First, the apparel category of Nike and Adidas in the China market are underperforming and losing share in the face of intense competition from international casual wear brands and fast fashion apparel brands. Second, in the past few years the department store channel has been making adjustments to the sportswear category, including downsizing the sportswear section, or getting out of the category entirely, which created significant pressure on the sell-through of sportswear products. Third, distributors are generally under pressure. On the one hand purchase cost is high and gross profit margin is thin. On the other hand expenses keep moving up. Profitability is being significantly squeezed. Some regional distributors have difficulties in getting needed financing to continue normal business operations, which significantly impacts retail sales to end users. Fourth, the futures order business model, combined with the strong bargaining power traditionally enjoyed by the brand companies, makes it easy to order more than actual demand. Over-ordering does not pose a significant risk to the market in periods of high growth. But under a different backdrop of weaker sentiment and slower growth in the past few years, unreasonable futures orders directly led to channel stuffing, which not only disrupted product mix and store productivity, but also created significant pressure on gross profit margins.

Because of the structural challenges discussed above, coupled with the weak sentiment in the consumer retail market, it is not likely that the sportswear market will see a significant recovery in the near term. However, the Group also noted a few positive factors. First, the athletic footwear products of tier-one international brands are staying competitive and enjoyed robust growth. Second, the brand equity of tier-one international sportswear brands still stands out, which will help them maintain and obtain retail space in both the traditional department store channel and also the emerging shopping mall channel. Third, tier-one international brands are aware of the difficulties experienced by their distributors. They are taking a variety of measures trying to help distributors improve financing, strengthen operations, and enhance profitability. Fourth, the interests of brand companies ultimately lie with the long term value creation and value maximization of their brands, and not in the maximization of short term profits. With this understanding tier-one international brands have been adjusting their expectations and since mid-2012 significantly lowered the target for futures orders, which will be positive for digesting excess inventory and the normalization of the market.

We believe that with rising disposable income, more participation in sports and fitness, and continued sophistication of Chinese consumers, there will be a sustainable long term expansion of the demand for sportswear products, especially performance sports products. Strong international sportswear brands such as Nike and Adidas are well positioned to strengthen their competitive advantage and capture the sustainable growth in the under-penetrated China market, on the back of unique brand equity, industry-leading R&D and a broad product line.

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 in the business mix i.e. the proportional weighting of the two business segments would impact the blended financial metrics and operational metrics of the Group.

In the 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 profit margins and operating profit 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 turnover on a per store basis. As a result the concessionaire rate is usually lower for sportswear stores and expenses such as staff expenses are also lower as a percentage of sales.

In 2012 both business segments grew at about the same rate. The business mix was largely unchanged, with the footwear segment contributed 64.0% of the total revenue of the Group, and the sportswear segment 36.0%.

In March 2012 the Group announced an acquisition in the sportswear business, which has recently cleared regulatory approval. The transaction was completed on 1 March 2013. As the financials of the acquired business get consolidated, in the near term the sportswear business will take a bigger share of the business mix of the Group, which will impact various business metrics of the Group.

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 customer base.

Changes in income tax rate

The effective income tax rate was 23.8% in 2012, higher than the prior year by 1.3 percentage points. The main reasons are as follows. First, the applicable income tax rate for New Belle Footwear (Shenzhen) Limited ("New Belle"), a major operating entity for our footwear business in Mainland China, was 24% in 2011. From 2012 onwards New Belle is subject to an income tax rate of 25%. Second, He Zhong Apparel (Shenzhen) Limited ("He Zhong"), another important subsidiary of the Group in the footwear business, was subject to 50% reduction in the prevailing tax rate in the region in both 2011 and 2012, at 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%. 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 Group's subsidiaries in Mainland China on remittance of dividends to foreign holding companies is 5%.

Since the implementation of the new enterprise income tax act in 2008, various preferential tax treatments and tax holidays enjoyed by certain business entities of the Group in China gradually expired, resulting in higher effective income tax rate for the Group year after year. This normalization process is expected to be largely complete in 2013, when the effective income tax rate eventually is expected to stabilize at a level that is slightly over 25%.

While actively growing our business and creating shareholder value, the Group is 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 a stream of government subsidies over the next 3 to 5 years. Government subsidies are usually recorded as other income, and will not directly offset income taxes.

Inventory turnover

The average inventory turnover days were 173.9 in 2012, slightly higher than the 167.6 days in 2011. The inventory turnover days for the footwear business were slightly higher at 204.0 days in 2012 (2011: 202.0 days). The inventory turnover days for the sportswear business were also higher at 146.2 days in 2012 (2011: 137.4 days). The main reason why inventory turnover days are higher is because of the opening balance, rather than a high balance at the end of 2012. As of year-end 2011 inventory balance was on the high side, which in turn negatively affected the calculation of inventory turnover for the subsequent period.

The inventory balance as at 31 December 2012 was RMB7,032.7 million, a modest increase of 7.9%, from the balance of RMB6,516.6 million as at 31 December 2011, while sales increased by 13.5% over the same period. On a relative basis the inventory position was lower, and improved, from the end of the prior year.

Inventory turnover is closely related to the business model, which requires a detailed case by case analysis based on relevant business characteristics and business mix. For instance, the footwear business of the Group has significantly higher inventory turnover days than the sportswear business because of different business models. In the footwear business we invest in the whole value chain, which requires the holding of inventory at not only the retail level but also raw materials and work-in-process in manufacturing.

From a historical perspective, in the past two years the inventory turnover days for our footwear business have been ranging between 180 and 200 days, slightly higher than the 160 to 180 days range we used to have three to four years ago. This change does not mean that the operational efficiencies are lower for the footwear business of the Group. Rather, it is mainly due to the gradual changes in our business mix. On the one hand, men's footwear, mid-to-high-end women's footwear and casual footwear have been growing faster on a relative basis. These categories have very different operational requirements from the core middle-end fashion footwear brands, and usually have slower inventory turnover. On the other hand, the footwear business of the Group has been penetrating into lower tier markets at a relatively fast pace, with a fair percentage of new stores in our portfolio. New stores in third-tier cities typically have lower sales productivity on a per store basis. However for these stores we still need a certain level of inventory to ensure completeness of the necessary SKUs as well as sizes. As a result inventory turnover days are longer for these stores. These changes in business mix are in line with our strategy to actively add category coverage and increase market penetration. As such a slightly longer inventory turnover period is within our expectations and also an acceptable cost.

From a peer comparison perspective, due to certain qualitative or quantitative differences between the Group and other companies in the same sector, there are a few major factors to consider when comparing inventory turnover efficiency of different companies. First, there is a company's choice between direct-retail model and franchise model, and the percentage of direct-retail. Second, there is a company's involvement in manufacturing – what percentage of its manufactured products are sold in its own retail, and what percentage of its sales is from in-house manufacturing. Third, there is also a difference in the brand positioning, including price point, style, etc.

Inventory turnover and merchandising have always been of critical importance in the management of our business. In practice we are generally seen as industry leading on this aspect, which also shows up in the financial performance of the Group. However we need to have a holistic view and recognize that inventory turnover is only one of the key performance indicators in managing our footwear retail business, and cannot be taken out of context. We need to take into account relevant factors such as market positioning of specific brands, geographic characteristics, and setup of specific stores. Inventory turnover has to be used in conjunction with other metrics such as profitability, growth and competitiveness in order to draw a fair and complete conclusion in evaluating the management of the footwear retail business.

The impact of higher labor cost and staff expenses

The results of the Group in 2012 were to a large extent affected by higher staff cost as a percentage of sales, especially the wages and social security expenses at retail level.

In our view, in the first twenty plus years since China's opening up and reform, the objective of "wellbeing for some people" was largely achieved. Currently the wages for low-income groups are growing at a fast pace, not only because of temporary structural issues in the supply and demand, but also reflecting the irreversible trend of "wellbeing for all". Said wage inflation is expected to continue into the next two to three years. However we also believe that the fast pace of wage inflation is mostly due to the low base in the prior years. For the time being, in many regions the wages for workers and sales associates are mostly on par with the market compensation of fresh graduates from college, thus less pressure on continued high growth. Meanwhile, the overall slowdown and continued structural rebalancing of the Chinese economy will over the long run help alleviate the mismatch between supply and demand and also increase employment in the domestic consumption and services sectors.

The fact that staff expenses as a percentage of sales were significantly up for the Group in 2012 was mainly because of the prevailing condition of the labor market and out of the control of the Group. However, on the other hand, there is also the situation of relatively low sales productivity on a per store and per person basis, not enough to offset or alleviate the pressure from higher wage expenses. The Group believes it is not in our best interest trying to lower wages for the sales associate. On the contrary it is critical for us to continue to proactively raise the wages for our frontline workers, to ensure competitive compensation for our employees. Stabilized store staff and improved morale will enable us invest further in the training of our sales associates to build their skills and improve quality of services, which will lead to higher productivity. Meanwhile we need to continue to rationalize shift arrangement for each and every store, taking into account the traffic profile as well as potential synergies with adjacent stores operated by the Group. An effort at optimizing the shifts and staffing will play a positive role in increasing sales productivity on a per store and per person basis. It is our firm belief that with general increases in wages for the low-income groups overall standard of living will be gradually pushed higher. The ability as well as willingness of consumer will increase along the way, providing long-term support for us to drive higher sales productivity.

Manufacturing labor cost is also expected to continue to increase. But the pressure is likely not as pronounced as in retail. The production bases of the Group in the inland areas of China will gradually ramp up utilization. With much lower wages than the coastal areas where our traditional production base is located, the new facilities will enable us manage the cost of direct labor on a per unit basis. With many regions recently announcing further increase to minimum wages, the labor market will continue to expect and demand higher wages. The Group will continue to face the pressure of higher manufacturing labor cost. We will take measures to gradually ramp up the Anhui facility and continue to improve the skills of employees and efficiencies of the new facility. At the same time we will continue to invest in logistic systems and improve logistical efficiencies, in an effort to attack the challenge of higher labor cost with continued improvement in operational efficiencies.

Partnership with international brands

The Group is always positioned as a retailer, not only of footwear products but also in related sportswear category. We carry our own brands, and also operate well-known international brands. For each specific brand there is a specific form of cooperation, depending on the involvement of respective parties in the value chain. There is brand licensing, as in the case of Bata, in which we are fully responsible for product development, manufacturing, distribution and retailing. There is retail distribution, as in the case of Nike and Adidas, in which we only play the retailer role. There is also a hybrid model for some brands in which part of the product offering is purchased from brand companies and part of it is developed by the Group. The specific choice of the partnership is mainly determined by the specific match of skills between the two parties, as well as the trust and quality of communication built during the course of cooperation.

As a retail company focused on the fashion market in China we have our unique resources and skills that could create value for international brands. First, the Group has retail operations and teams in about 350 cities across the country. We have in-depth understanding of local markets and working relationships with major channels, providing a springboard for well-known international brands to quickly expand store network and establish a presence on a large scale. Second, our existing retail platform can provide shared resources in retail operations, logistics, and back office support, effectively lowering expenses and breaking the barrier to entry for international brands.

The Group is also experienced in the R&D and manufacturing of middle-end and mid-to-high-end women's fashion footwear. Our fast replenishment supply chain model in operating brands in the abovementioned categories also proved to be unique and competitive. These skills and resources can effectively be leveraged to international footwear brands with similar market positioning, helping them improve operational efficiencies with the support of localized product development and fast-responding supply chain.

The Group is always open to discussing potential partnership with international brands that fit into the profile we seek. Generally speaking a potential partner brand should have the following characteristics. First, a well-know brand, or a well-footed brand with a solid background and legacy, can better utilize the retail platform of the Group to achieve fast market penetration. Second, a brand catering to the middle-end or mid-to-high-end market can better fit into the business profile and channel profile of the Group. Third, if a brand operates outside of the fashion footwear category, for example in sportswear or fashion apparel, we would like to see that the brand company has strong skills and resources in product development, brand marketing and supply chain management.

It is our view that a partnership in brand licensing and distribution should be relatively stable if two parties have similar market positioning, complementary skills and resources, and a fair distribution of economic interests. To put it in the context of history, globally, luxury and ultra-premium brands, and fast-fashion brands emphasizing on speed of the supply chain, usually are more inclined to strengthen their involvement and control over retail. With these brands there are instances of taking back a distributorship and converting to direct retail. For most international brands that are positioned in the middle-end, mid-to-high-end, and mass market segments, their specific skills are concentrated in branding and R&D, with little interest or capability to be directly involved in retail. The core interests of these brands are mostly vested in finding the right retail partner in order to maximize the market penetration of their branded products.

The Group is better positioned than many competitors in obtaining and maintaining a right to distribute international brands that fit into our market positioning, because of the breadth and depth of our market reach as well as our strong retail management capabilities. The discontinuation of a certain brand is likely an isolated case, mostly due to the fact that said brand started to unilaterally move away from its original market positioning and thus made it impossible for the partnership to continue. With most successful internationally renowned brands the risk of discontinuation is low. From the perspective of the Group, there is also a need to periodically review the business development of each distribution brand and make necessary decisions to prune certain brands, usually regarding underperforming brands without long term value creation potential. As a result, such brand portfolio optimization decisions usually have very limited impact on the overall performance of the Group. However in 2012 when the overall market was weak and the core business was under pressure, the impact from discontinuing certain brands became more pronounced.

For certain high quality international brands, the Group will also actively consider a joint venture with the brand company in order to align the economic interests with a set of entities and thus strengthen the sustainable partnership in the long term.

New business initiatives

The Group always aspires to become a leading retailer of fashion products with a sustainable competitive advantage, which requires us to continue to find sizeable new sources of growth opportunities. The cultivation of such growth opportunities requires more experimentation and a long time horizon. It also requires us to remain open, to take a longer term view, and to continue to invest in order to create long term value for the Group.

- eCommerce

  It is an irreversible trend that online sales continue to increase its penetration. Even for footwear and apparel products that generally require a higher level of touch and try, the eCommerce channel is developing rapidly. On the defensive side, we are looking to cultivate the specific skill set and experience of online sales in order to mitigate the impact of potential changes in the future evolving of channel format and consumer behavior. But more so on the offensive side, the Group is looking at the huge opportunities implicit in the B2C market. We believe that we are well positioned to take a leading role in developing this market to unveil its potential and great opportunities.

  The eCommerce strategy adopted by the Group is two thronged. First, as an owner of brands, we need to extend into the online channel and build an online presence as part of the omni-channel strategy. We have opened flagship stores for a collection of brands within our portfolio on various open platforms including Tmall, using differentiated product assortment and pricing strategies specifically designed for such channels, in an effort to cultivate and broaden our target customer base online. Second, the Group started to operate yougou.com, a vertical B2C platform focused on fashion products since 2011. Unlike standardized products, there has been no proven case successful in the experiment of vertical B2C platforms focused on fashion products, due to the nature of the products involved. This is in stark contrast with the offline channel, especially the department stores, where over 50% of the sales are coming from fashion apparel, footwear and handbags. With the trend of online migration of consumer traffic and purchases, online marketplaces that are focused on quality fashion products are expected to enjoy enormous growth opportunities. Meanwhile with continued segmentation of online consumers, as well as their purchase behavior, there will always be a place for leading vertical platforms with competitive advantage in selected categories and clear market positioning focused on quality products to survive and thrive. With extended experience in operating fashion products, related technical know-how and supply chain resources, we believe we are well positioned to lead the experiment in developing this online format, and achieve a leading advantage in this space.

The experiment in eCommerce is a long term investment for the Group. In the starting phase of operations we will incur operating losses due to significant investment in human resources, technology, and infrastructure, as well as the high cost of online traffic acquisition. The losses are not significantly above our budget and expectations, with limited impact on the overall bottom line of the Group, and are expected to narrow down in the future. The initial investments are already bearing fruits. Within just a year and a half since yougou.com came online we have built an industry leading professional team and technical platform. We have quickly outgrown competition and become a leader in online platforms specialized in footwear and handbags. Next step the priority is not to pursue a fast ramp up of sales revenue, but to continue to explore the unique online marketing strategy for fashion products, and at the same time complete our category coverage in quality fashion apparel, footwear, and handbags.

- Mass market brand

The major business rationale for the Group to enter into the mass market segment is because the target customer group in this market segment is currently experiencing high income growth leading to higher spending power, which means enormous potential for demand growth. On the supply side, however, the mass market is not as competitive as middle-end and mid-to-high-end footwear markets, with only a few brands operating in the segment that have sizable scale and efficient operations. With a strong industry background and related resources in women's footwear the Group is well positioned to leverage existing R&D resources and retail platform to develop the mass market.

Of course the mass market women's footwear segment is significantly different from the middle-end and mid-to-high-end market segments in terms of channel choice and supply chain. In early 2012 we launched ":15MINS", a mass market brand positioned as fast fashion. Currently in the initial experimentation phase we are more focused on accumulating experience and skills rather than fast penetration. In the next 2 to 3 years we plan to gradually phase the new brand into various regions to build the brand image and accumulate operational experience. When fully prepared in terms of team building, product development, brand marketing and supply chain management, we will then accelerate the store rollout of the new brand on a national level.

Similar to the eCommerce business, the mass market brand business is a long term strategic investment of the Group. In the near term we are focused on building skills rather than pushing volume and scale. As a result, we will incur an operational loss, due to high expenses relative to the revenue base. On the positive side, in this specific market segment there are already successful business cases that we can learn from. At the same time it is relatively easy for us to leverage existing industry background and resources. In the near term we will not subject the mass market initiative to targets such as breaking even. However because of the more definitive nature of the business model the cultivation period is not expected to stretch too long in the future.

- Multi-brand store format

As a retailer of fashion products, the Group always closely monitors the everlasting development of evolving retail channels, and with foresight continues to experiment and explore new business format in order to keep our brands and our products relevant in the retail channels.

In different sales channels, the relevant retail store format needs to vary and adapt accordingly. For the time being the Group sells predominantly through the department store channel, which usually requires a concessionaire model with small mono-brand stores in an open section. This format cannot be easily replicated into the shopping mall channel due to differences in traffic and consumer behavior. In the shopping malls the stores are relatively independent of each other, usually with a larger size and more choice of merchandise in order to attract traffic. And the space for store opening is limited. For a small footwear store it is very hard to obtain stand-alone store front and opening to the aisles to effectively establish a visual presence for the brand and feature products. As such the Group has been actively experimenting with the multi-brand format that is specifically designed for the shopping mall channel. The main objective is to provide an effective product assortment from a variety of brands and multiple categories customized for the target customer group of each specific shopping mall. With differentiated product offerings we aim to provide a one-stop footwear destination for consumers. In our view this format has the potential to be more efficient because rent is lower, on average, for a larger space and sales productivity is usually higher on a per person basis in a larger store.

The development of the multi-brand format is a gradual process over the long term and not a speedy transition. The process is reliant on gradual changes of consumer behavior over a long term, as well the gradual improvement in the operational management of shopping malls. Generally speaking there were many shopping malls being constructed and completed in recent years, but not many were successful. Even the more successful shopping malls were attracting traffic more skewed to entertainment and dining. Traffic for shopping was relatively low and mostly steered toward luxury, high profile fast fashion and tier-one athletic brands, stores with a very high brand appeal. It may take a long time to develop the shopping traffic and consumer behavior in footwear products in the shopping mall channel. From our perspective, currently it is more about building the requisite skills on the inside, including the design of store image, schemes of brand assortment and product assortment, and operational management. We will work on formulating differentiated execution plans and selectively roll out multi-brand stores in shopping malls suitable for our brands.

Prospects

2012 was one of the more difficult years in our 20 years of history in this business. Sales growth and profit growth were both close to the historical low point. Our colleagues at various levels were facing a variety of challenges, both internally and externally. But the difficult situation was mainly due to the overall business environment and market conditions, and not because of issues specific to the Group. Compared with industry peers our brands were not losing competitiveness. In fact overall market share was slight up in our channels. Faced with similar challenges and difficulties, the financial impact on the Group was notably smaller than industry average.

Of course, the fact that we are better than industry norm is not reason enough to be complacent. Our scale and market leadership require us to always use a higher standard in evaluating our performance. This is especially true when looking forward there are still many uncertainties in the economic environment and market condition. General market sentiment is weak, while upward pressure persists in various costs and expenses, presenting significant challenges to our frontline teams in market development and business management. We have to be fully prepared. We have to make reasonable adjustments to performance targets according to the different characteristics of each and every line of business. We will continue to strike a balance between market penetration and prudent business management. We will continue to strengthen our competitiveness and seek opportunities within a difficult environment, in an effort to lay a solid foundation for long term sustainable growth.

In a weak economic environment we should refrain from becoming too conservative and too bearish. First, footwear products satisfy a real economic need, which forms the basis for the long term growth of this market. Second, the penetration of footwear products in China is still much lower than developed countries. With economic development and higher income there is a concrete demand from consumers to increase consumption of footwear products on a per capita basis. Third, there is still a strong expectation for higher disposable income for the average Chinese consumer. The overall consumer group is also gradually moving its frontier to include more people and higher spending power. Short term business cycles and changes in the market environment do impact consumer psychology and market demand. But the fundamental directions remain unchanged. We believe in the strength of the market and its long term potential of future development.

Next step the Group will focus on the following priorities. First, we need to continue to improve efficiencies. A period of slowdown also provides us with opportunities to review and consolidate our resources, especially in human resources, in an effort to improve retail management at the store level. We also need to continue to improve on various aspects such as product development, branding and coordination, logistics, etc. in order to provide the strongest support possible to the frontline teams to help them increase same store sales and improve relevant business metrics. Second, we need to continue to expand the store network at a steady and prudent pace. With the setup of operational teams in lower tier markets we aim to continue to delve deep into new neighborhoods and new markets that are currently underpenetrated. By empowering our frontline teams and aligning incentive schemes, we can ensure the quality of market development. Third, we need to continue to invest in new sources of growth, including new brands, new channels, and new businesses, to prepare the Group for the long haul.

"There are always more solutions than there are problems". This is what we always believe in. This is also what has been proven true again and again during the 20 years of our experience. Temporary difficulties and growing pains are not our enemies. We believe that, if we stay true to our hardworking and learning tradition, if we keep thinking and keep practicing, we will be able to find solutions for the short term difficulties and continue to strengthen our leadership position in the marketplace, however fiercely competitive it is.

Pledge of Assets

As at 31 December 2012, no property, plant and equipment, land use rights and investment properties were pledged as security for banking facilities available to the Group (31 December 2011: nil).

Contingent Liabilities

As at 31 December 2012, the Group had no material contingent liabilities.

Human Resources

As at 31 December 2012, the Group had a total of 116,263 employees (31 December 2011: 103,132 employees). During the year ended 31 December 2012, total staff cost was RMB4,767.2 million (2011: RMB3,907.2 million), accounting for 14.5% (2011: 13.5%) 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.

GENERAL INFORMATION

Proposed Final Dividend

The Board recommended the payment of a final dividend for the year ended 31 December 2012 of RMB8.0 cents (2011: RMB8.0 cents) per ordinary share, totaling RMB674.7 million (2011: RMB674.7 million). The proposed dividend payment is subject to approval by the shareholders of the Company at the annual general meeting to be held on Tuesday, 28 May 2013 and are payable in Hong Kong Dollars based on the official exchange rate of Renminbi against Hong Kong Dollars as quoted by the People's Bank of China on 28 May 2013. Upon shareholders' approval, the proposed final dividend will be paid on or about Thursday, 20 June 2013 to shareholders whose names appear on the register of members of the Company on Thursday, 6 June 2013.

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, 28 May 2013, the register of members of the Company will be closed from Friday, 24 May 2013 to Tuesday, 28 May 2013, 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, 23 May 2013.

(b) The final dividend will be payable on or about Thursday, 20 June 2013 to the shareholders whose names appear on the register of members of the Company on Thursday, 6 June 2013. For the purpose of ascertaining shareholder's eligibility for the final dividend, the register of members of the Company will be closed from Tuesday, 4 June 2013 to Thursday, 6 June 2013, 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, 3 June 2013.

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.

Corporate Governance

After reviewing the Company's corporate governance practices and the relevant regulations of the Code on Corporate Governance ("Former CG Code") and the revised and renamed Corporate Governance Code and Corporate Governance Report ("New CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), the Board is satisfied that the Company complied with the code provisions of the Former CG Code during the period from 1 January 2012 to 31 March 2012 and the New CG Code during the period from 1 April 2012 to 31 December 2012, except for the deviation from code provision A.6.7 (attendance of Non-executive Directors in general meetings) of the New CG Code. Mr. Tang Yiu (Non-executive Director), Ms. Hu Xiaoling (Non-executive Director) and Dr. Xue Qiuzhi (Independent Non-executive Director) were unable to attend the annual general meeting of the Company held on 29 May 2012 due to other personal commitments.

Model Code for Securities Transactions by Directors

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 of the Company. Following specific enquiry, each of the Directors has confirmed compliance with the required standard set out in the Model Code throughout the year ended 31 December 2012.

Audit Committee

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 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 Audit Committee has reviewed with management the accounting principles and practices adopted by the Group, and discussed internal controls and financial reporting matters, including a review of the financial statements and annual results for the year ended 31 December 2012.

Remuneration Committee

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 procedures for developing such policies; determining the terms of specific remuneration package of the Directors of the Company 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 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.

Nomination Committee

The Nomination Committee was established on 17 March 2012 with written terms of reference. 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.

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.

Purchase, Sale and Redemption of the Company's Listed Securities

During the year ended 31 December 2012, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

Sufficiency of Public Float

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

Annual General Meeting

The annual general meeting of the Company will be held in Hong Kong on Tuesday, 28 May 2013. A notice of the annual general meeting will be issued and disseminated to shareholders in due course.

By Order of the Board
Belle International Holdings Limited
SHENG Baijiao
CEO & Executive Director

Hong Kong, 25 March 2013

As at the date of this announcement, the Executive Directors of the Company are Mr. Sheng Baijiao, Mr. Tang King Loy and Mr. Sheng Fang, the Non-executive Directors are Mr. Tang Yiu, Mr. Gao Yu and Ms. Hu Xiaoling, and the Independent Non-executive Directors are Mr. Ho Kwok Wah, George, Mr. Chan Yu Ling, Abraham and Dr. Xue Qiuzhi.

This annual results announcement is published on the websites of The Stock Exchange of Hong Kong Limited at www.hkexnews.hk and the Company at www.belleintl.com under the section of "Investor Relations / HKEX Filings" respectively. The annual report of the Company will be despatched to the shareholders and will be available on the websites of The Stock Exchange of Hong Kong Limited and the Company respectively in the due course.