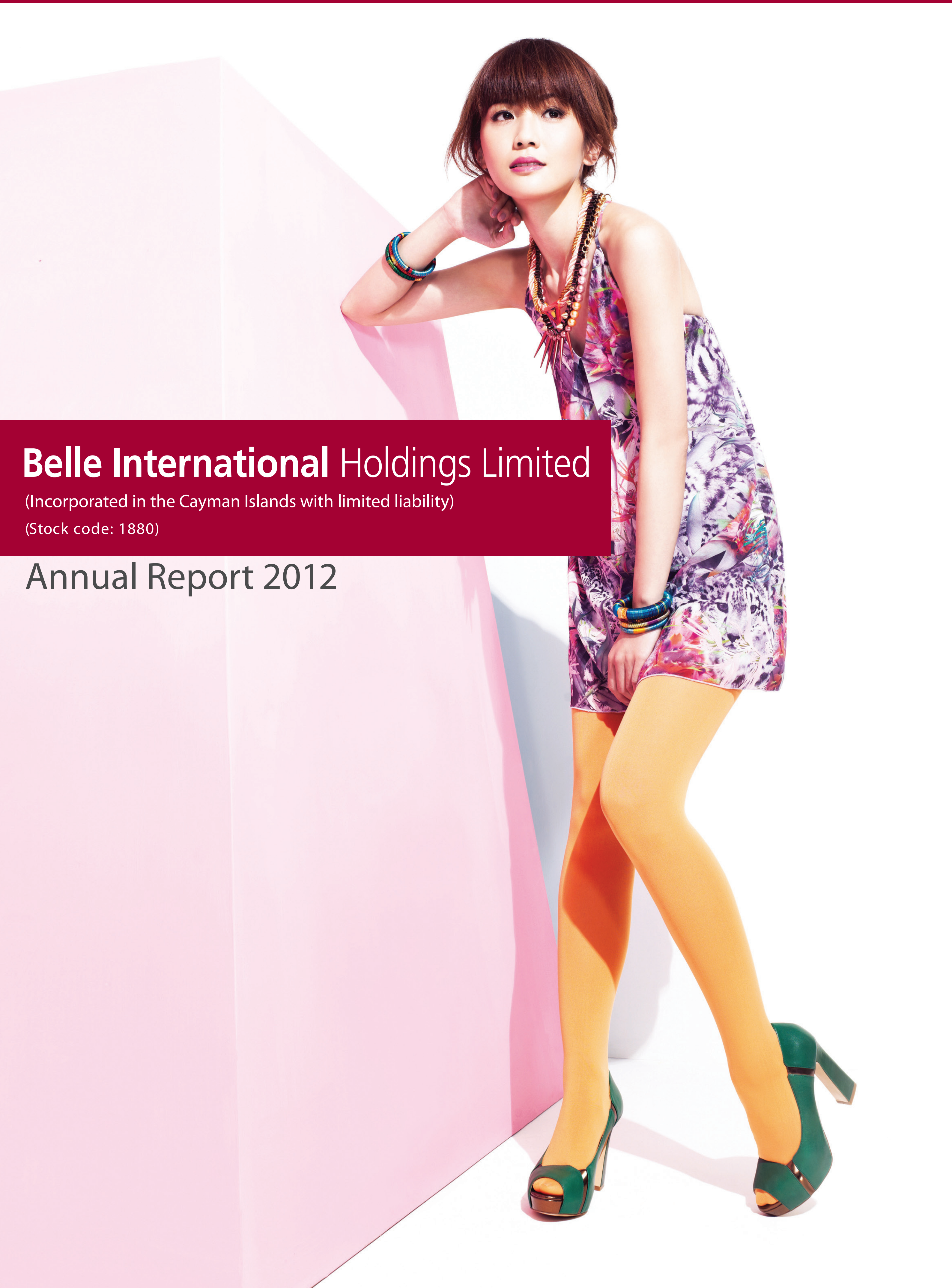
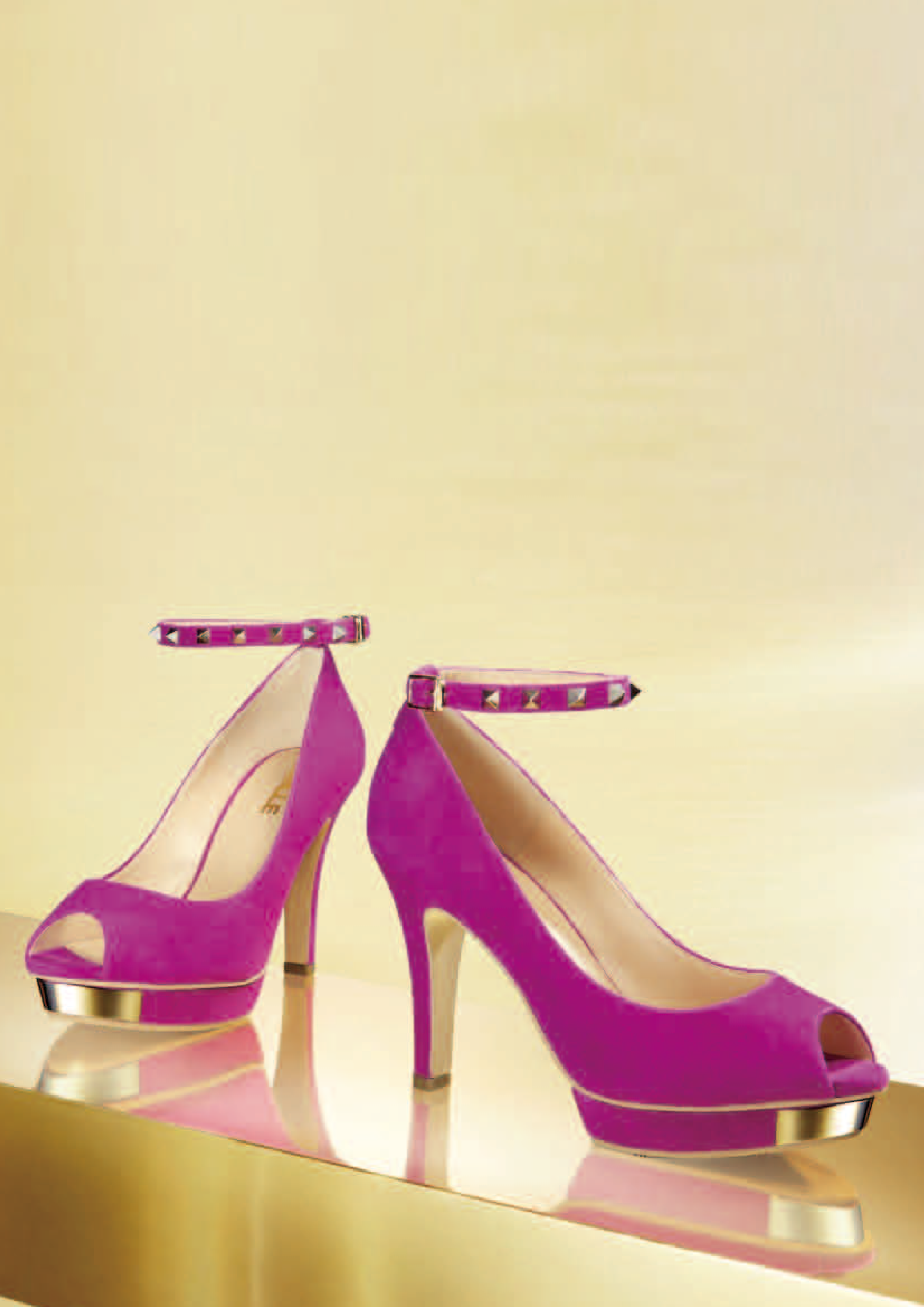
Belle International Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1880)

Annual Report 2012





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CORPORATE INFORMATION

Board of Directors

Chairman

Mr. Tang Yiu
(Non-executive Director)

Executive Directors

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

Non-executive Directors

Mr. Gao Yu
Ms. Hu Xiaoling

Independent Non-executive Directors

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

Authorized Representatives

Mr. Tang King Loy
Mr. Leung Kam Kwan

Audit Committee

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

Remuneration Committee

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

Nomination Committee

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

Company Secretary

Mr. Leung Kam Kwan, FCPA

Registered Office

Offshore Incorporation
(Cayman) Limited
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Cricket Square, P.O. Box 2804
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Cayman Islands

Head Office and Principal Place of Business in Hong Kong

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Auditor

PricewaterhouseCoopers
Certified Public Accountants
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Principal Share Registrar

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Grand Cayman KY1-1110
Cayman Islands

Hong Kong Branch Share Registrar

Computershare Hong Kong
Investor Services Limited
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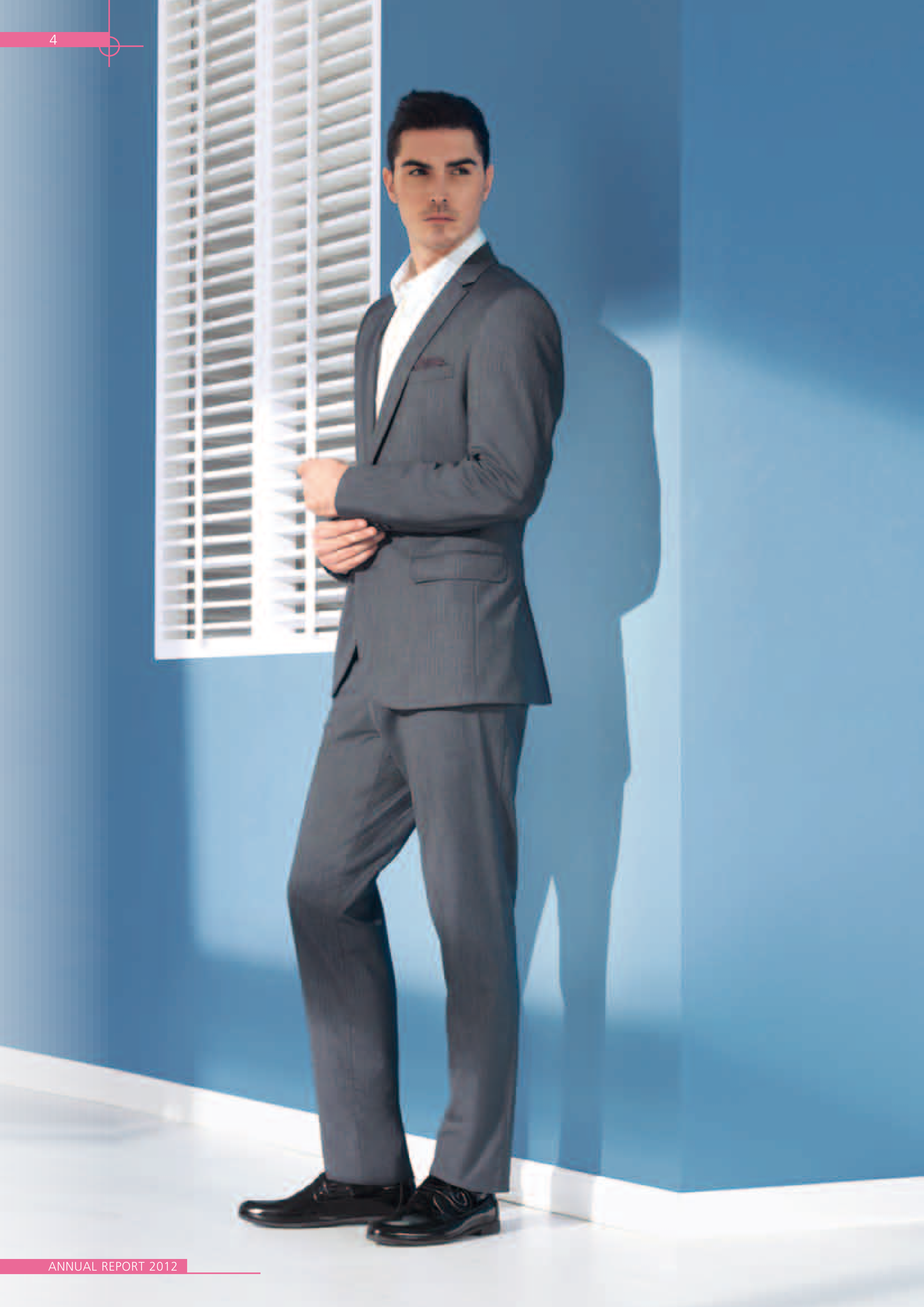
183 Queen's Road East
Wanchai
Hong Kong

Principal Bankers

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



FINANCIAL HIGHLIGHTS

		Year ended 31 December	
		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	RMB cents	**8.00**	7.00
– final	RMB cents	**8.00**	8.00

		As at 31 December	
		2012	2011
Gearing ratio	%	**7.6**	7.4
Current ratio	times	**3.3**	3.1
Average trade receivables turnover period	days	**32.7**	30.7
Average trade payables turnover period	days	**30.8**	34.7
Average inventory turnover period	days	**173.9**	167.6

STATEMENT FROM CHAIRMAN

Dear Shareholders,

In 2012 the world economic environment continued to be mired with fluctuations and uncertainties. External demand was sluggish. The Chinese economy experienced a slowdown. Willingness to invest and confidence of consumers were both low. There was a general overcapacity, resulting from the accumulation of issues in economic development over the past years. Although adjustments to macroeconomic policies can support the economy in the short term, the structural imbalance in the Chinese economy will not be solved overnight. It is likely that the Chinese economy has bid farewell to the era of high growth. We are likely entering a prolonged phase of structural rebalancing and moderate growth.

In the consumer retail market overall sentiment was weak. Rising income for the average wage-earner did not effectively translate into higher consumer demand. Growth for relevant sectors was generally under pressure. At the same time, due to higher expenses, especially staff cost, profit margin was being squeezed for many businesses. In such a difficult environment, my colleagues continued to work hard, facing the challenges head-on. As a result the Group not only achieved positive growth of both revenues and profits, but also improved market competitiveness and market share, delivering a satisfactory set of results. I would like to take this opportunity to thank all my colleagues.

STATEMENT FROM CHAIRMAN

For the year ended 31 December 2012 the Group grew its revenues by 13.5%, operating profit by 2.6%, and profit attributable to equity holders of the Company by 2.3%, as compared with the prior year. There were 1,820 net additions to company-managed footwear retail outlets and 794 net additions to company-managed sportswear retail outlets during the year in Mainland China. As at 31 December 2012 the total number of company-managed retail outlets reached 17,712, of which 17,564 outlets are located in Mainland China and 148 in Hong Kong and Macau.

A difficult year 2012 is behind us. Year 2013 is still full of challenges. In the face of various short term challenges and a prospect of relatively slower growth, we are fully prepared. We are prepared to make necessary adjustments to our business tactics to adapt to changes in the market environment. At the same time the Group still remains optimistic on the medium and long term potential of future development. Potential demand created by a rebalancing economy and income growth will provide the Group with a favorable market environment for long term growth. In recent months, there has been a series of positive signs in policy stance, economic environment as well as capital markets. These positive signs, although likely will take some time to translate into concrete consumer demand and market performance, will enable us to be more confident in continuing to invest in the future. We believe that the organization and all our people will continue to be cognizant, perceptive and confident. We will continue to carry on the passion in our tradition as well as our proactive corporate culture. We will continue to improve our competence and competitiveness with a thoughtful mind and effective execution. We will tackle the challenges and capture underlying opportunities in an effort to build the Group into a leading business organization with long term sustainable growth.

Tang Yiu
Chairman

25 March 2013

STATEMENT FROM CEO

Dear Shareholders,

On behalf of the board of directors (the "Board") and all employees of the Group, I am pleased to report the results for the full year of 2012 as follows:

RESULTS FOR THE FULL YEAR OF 2012

The Group's overall revenue increased by 13.5% to RMB32,859.0 million in 2012 compared with last year. Revenue of the footwear business increased by 13.6% to RMB21,045.3 million. The sportswear business recorded a revenue of RMB11,813.7 million, up by 13.5% from the prior year. The footwear business contributed 64.0% of the revenue of the Group, which was the same as the prior year.

Operating profit was RMB5,402.9 million, an increase of 2.6% from last year. The growth in operating profit was lower than revenue growth, mainly due to the operate margin decline in both the footwear business and the sportswear business. There were one-off factors behind the margin contraction such as the operational loss and asset impairment from certain discontinued brand distribution relationships. There were also some structural shifts in the business mix resulting from the extension of business scope and channel choice of the Group. The e-Commerce business and mass market brand business, for example, incurred operational losses in 2012, and are expected to be less profitable than the core business by a large margin in the coming years. Comparable business is also under pressure in the current economic environment, with low same store sales growth and higher expenses. In Mainland China staff cost was going up significantly, while in Hong Kong most of the pressure comes from rent increase, resulting in squeezed margins.

Profit attributable to the Company's equity holders amounted to RMB4,352.3 million, an increase of 2.3%, basically in line with operating profit growth.

Earnings per share amounted to RMB51.60 cents. The Board recommended a final dividend of RMB8.0 cents per ordinary share. Together with the interim dividend of RMB8.0 cents per ordinary share (paid on 18 October 2012), the total dividend for the year ended 31 December 2012 will amount to RMB16.0 cents (2011: RMB15.0 cents) per ordinary share.

SUMMARY OF THE OVERALL BUSINESS OF THE GROUP

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

Footwear business

Company-owned brands 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.

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

	Year ended 31 December				
	2012		2011		
	Revenue	**% of total**	Revenue	% of total	Growth rate
Company-owned brands	**18,741.8**	**89.1%**	16,713.7	90.2%	12.1%
Distribution brands	**1,874.4**	**8.9%**	1,526.0	8.2%	22.8%
Sub-total	**20,616.2**	**98.0%**	18,239.7	98.4%	13.0%
International trade	**429.1**	**2.0%**	292.9	1.6%	46.5%
Total	**21,045.3**	**100.0%**	18,532.6	100.0%	13.6%

Unit: RMB million

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

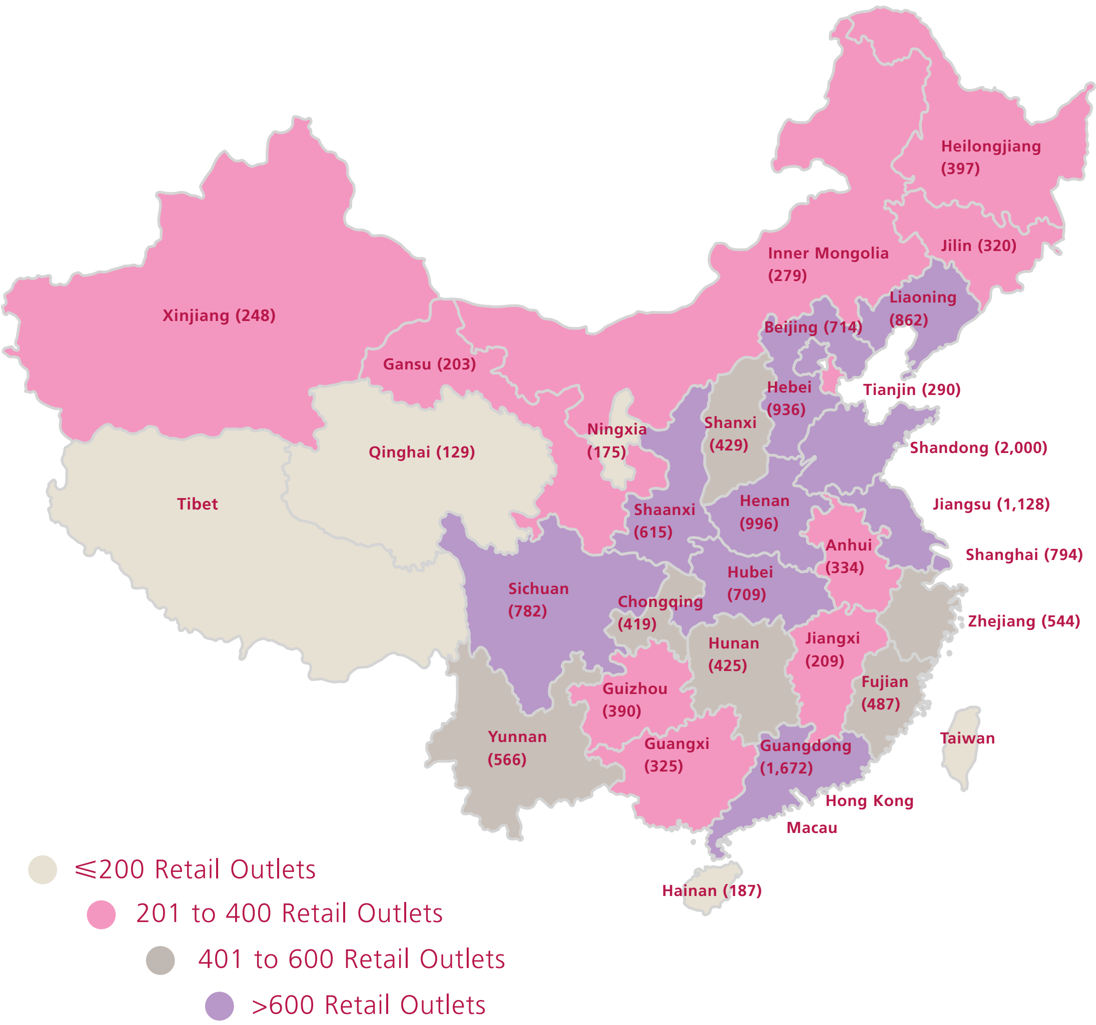
	Year ended 31 December				
	2012		2011		
	Revenue	**% of total**	Revenue	% of total	Growth rate
First-tier sportswear brands	**10,434.3**	**88.3%**	9,075.5	87.2%	15.0%
Second-tier sportswear brands	**1,301.0**	**11.0%**	1,229.2	11.8%	5.8%
Other sportswear business	**78.4**	**0.7%**	107.4	1.0%	(27.0%)
Total	**11,813.7**	**100.0%**	10,412.1	100.0%	13.5%

Unit: RMB million

STATEMENT FROM CEO

Expansion of company-managed retail network

The following map shows the geographical distribution of the Group's company-managed retail outlets in Mainland China as at 31 December 2012.



The following table sets out the distribution of the Group's 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.

OVERVIEW OF THE MARKET AND MANAGEMENT DISCUSSIONS

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.

STATEMENT FROM CEO

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 e-Commerce, 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.

STATEMENT FROM CEO

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 e-Commerce 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.

STATEMENT FROM CEO

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.

STATEMENT FROM CEO

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.

STATEMENT FROM CEO

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.

STATEMENT FROM CEO

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.

STATEMENT FROM CEO

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.

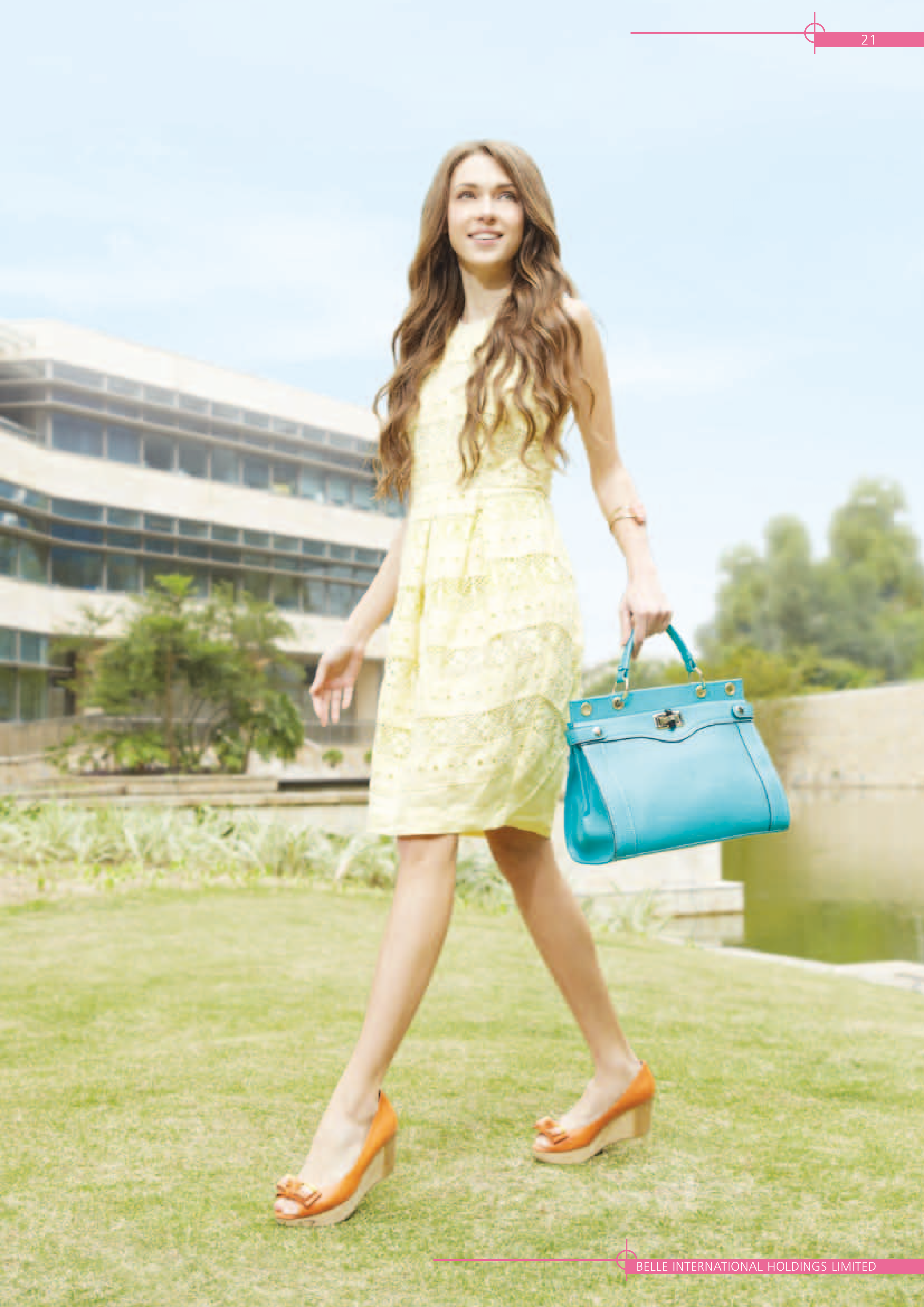
STATEMENT FROM CEO

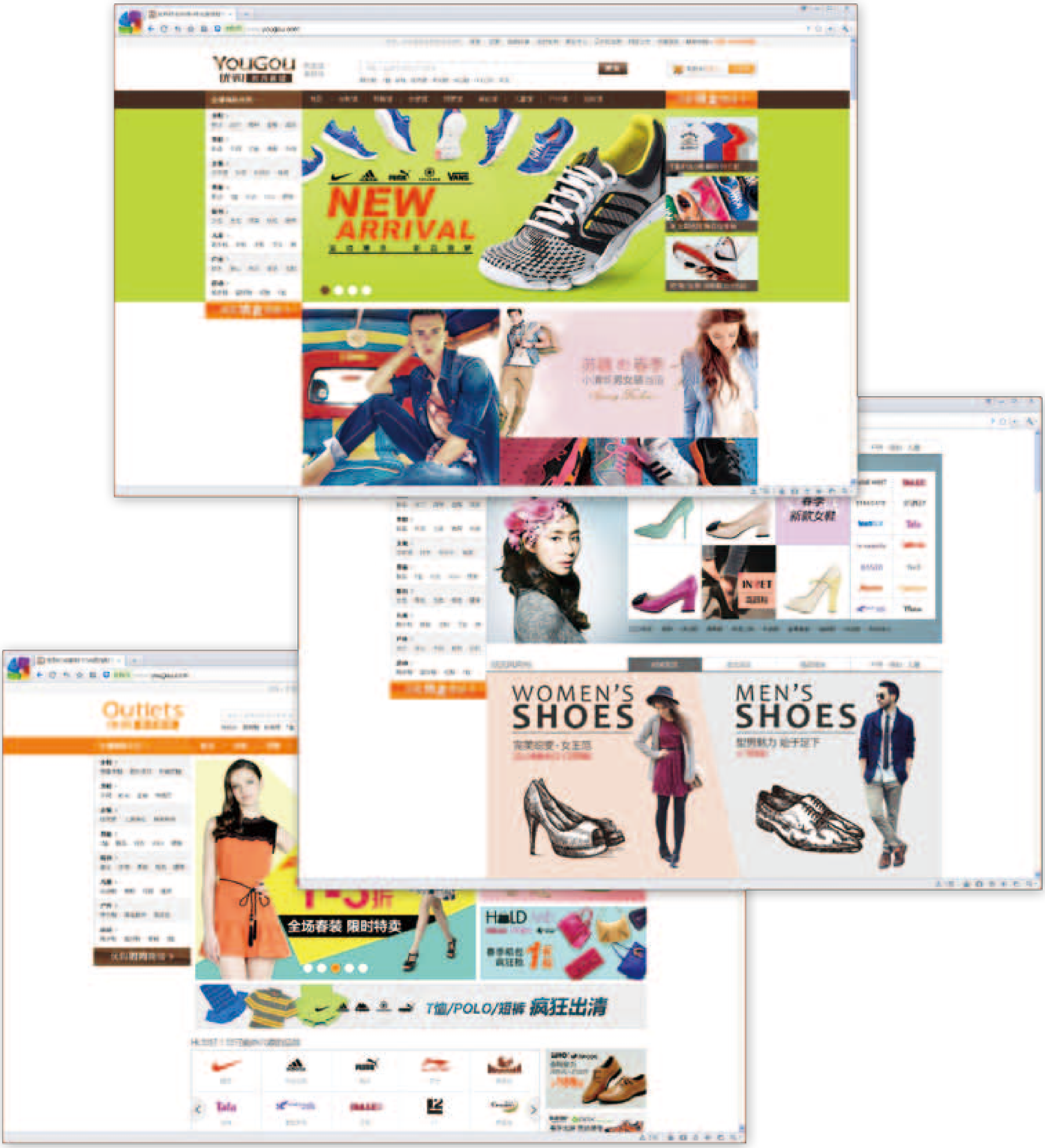
The Group is always open to discussing potential partnership with international brands that fit into the profile we seek. Generally speaking a potential partner brand should have the following characteristics. First, a well-know brand, or a well-footed brand with a solid background and legacy, can better 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.




YOUGOU
NEW ARRIVAL
WOMEN'S SHOES
MEN'S SHOES
Outlets
全场春装 限时特卖
T恤/POLO/短裤 疯狂出清

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.

- e-Commerce

  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 e-Commerce 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 e-Commerce 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 e-Commerce 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.

STATEMENT FROM CEO

- 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 e-Commerce 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.

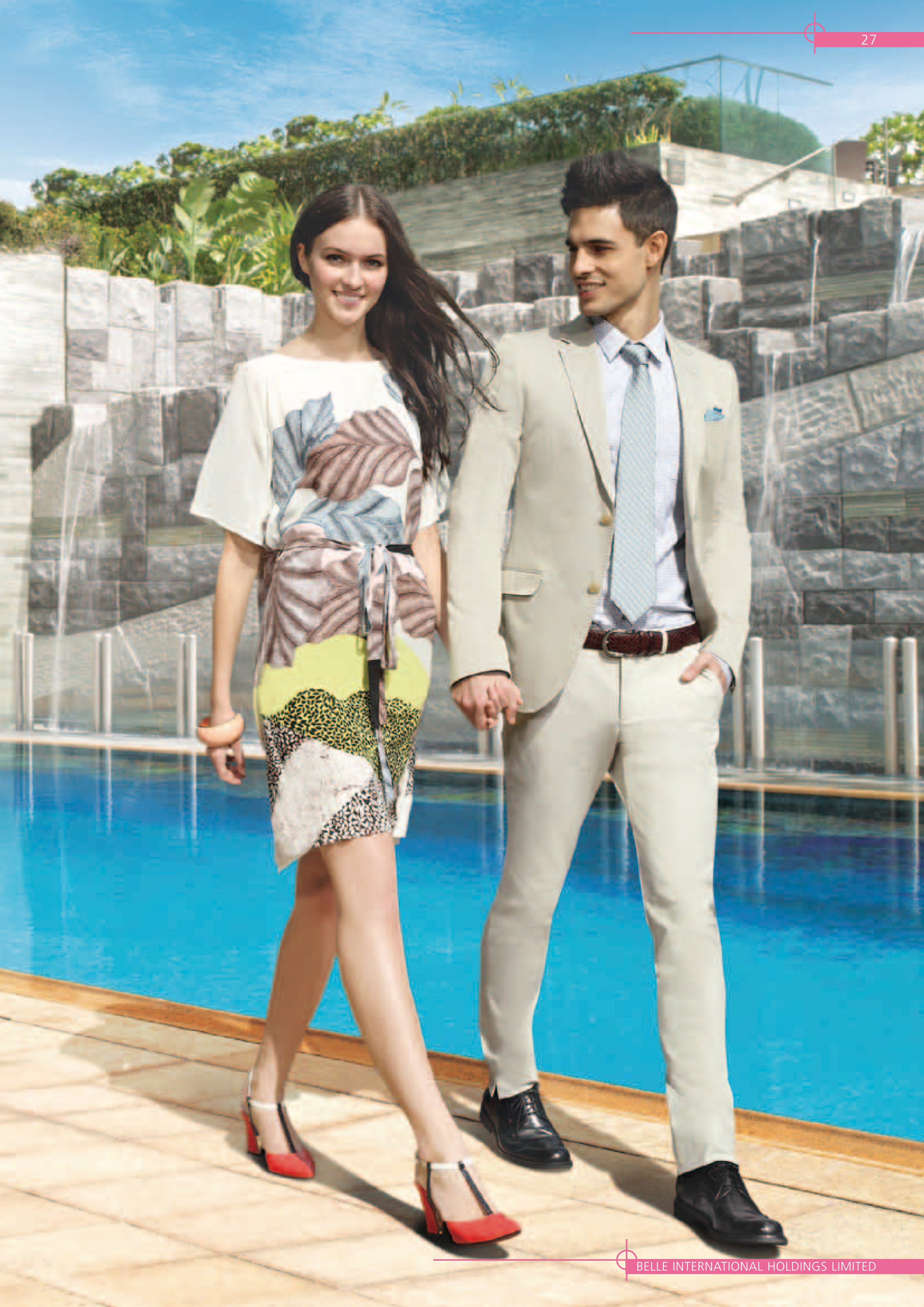
STATEMENT FROM CEO

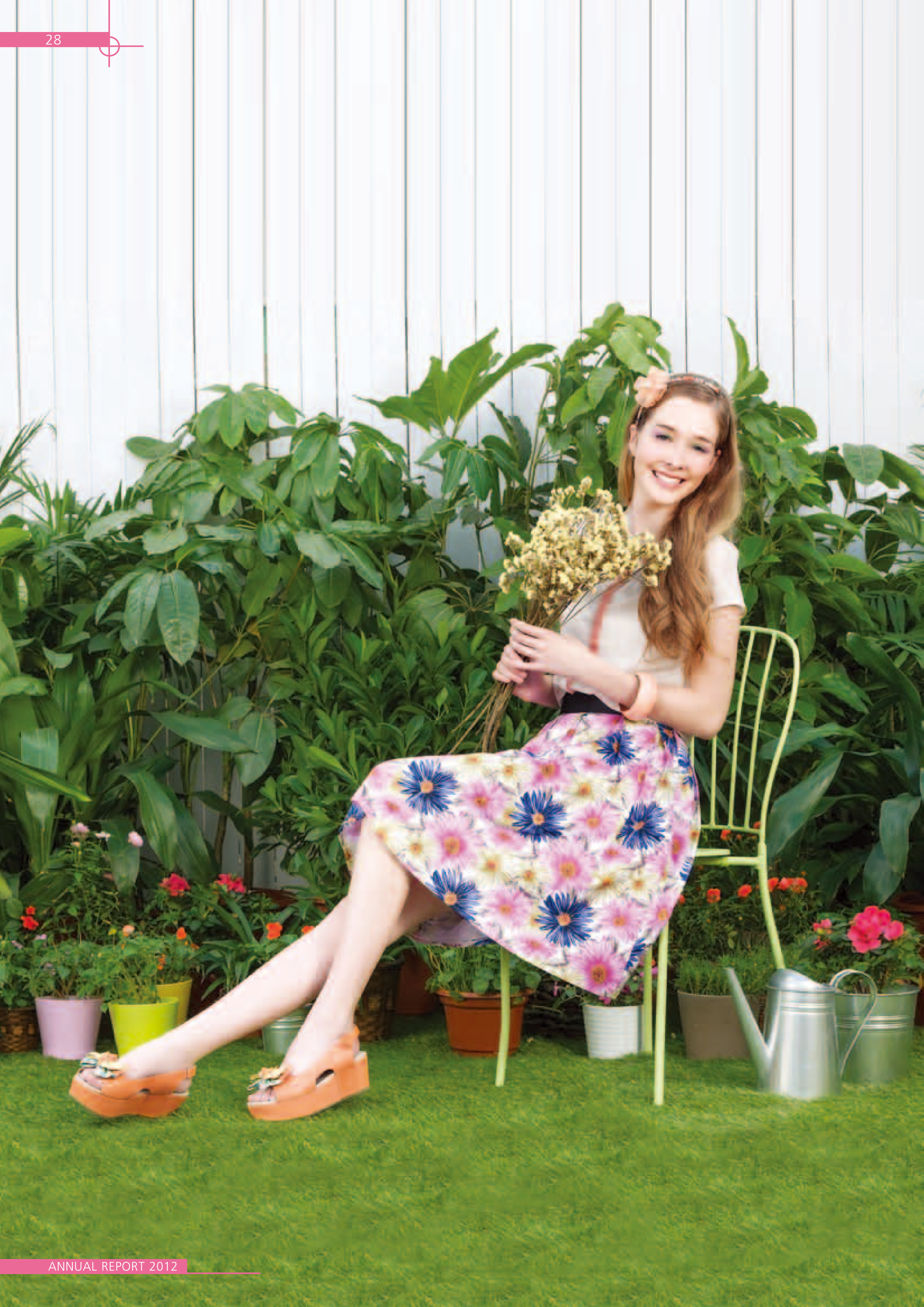
Next step the Group will focus on the following priorities. First, we need to continue to improve efficiencies. A period of slowdown also provides us with opportunities to review and consolidate our resources, especially in human resources, in an effort to improve retail management at the store level. 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.

Sheng Baijiao
CEO and Executive Director

25 March 2013





MANAGEMENT DISCUSSION AND ANALYSIS

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.

MANAGEMENT DISCUSSION AND ANALYSIS

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	**Sportswear**	Footwear	Sportswear	Footwear	Sportswear
	RMB million	***RMB million***	*RMB million*	*RMB million*	%	%
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 e-Commerce, 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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

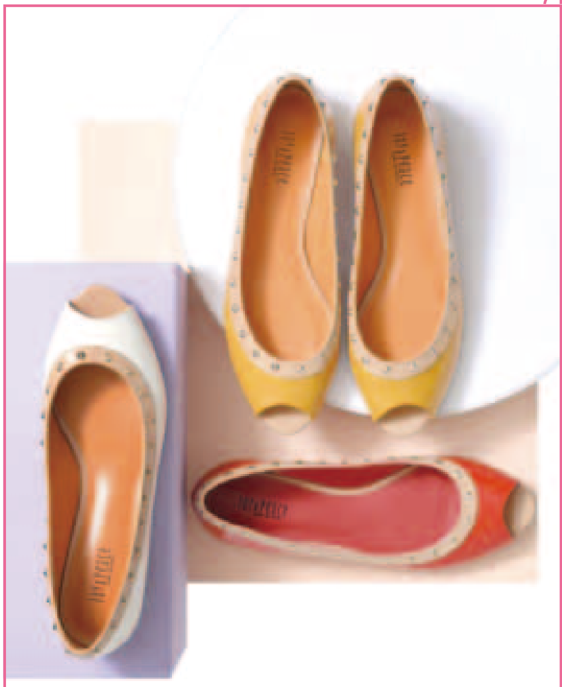
The Group maintains a strong and healthy balance sheet. As at 31 December 2012, the net working capital of the Group was RMB13,756.9 million, representing an increase of 14.8% as compared to that as at 31 December 2011. As at 31 December 2012, the Group's gearing ratio was 7.6% (31 December 2011: 7.4%) (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.

MANAGEMENT DISCUSSION AND ANALYSIS

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).

BANK LOANS AND OTHER BORROWINGS

As at 31 December 2012, the Group's bank loans and other borrowings were RMB2,176.3 million (31 December 2011: RMB1,895.4 million) and the Group's utilized banking facilities amounted to RMB2,261.9 million (31 December 2011: RMB2,088.4 million).

Particulars of bank borrowings of the Company and of the Group as at 31 December 2012 are set out in note 31 to the financial statements.

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.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

Details of the exposure to fluctuations in exchanges rates of the Group as at 31 December 2012 are set out in note 3.1(a) to the financial statements.

MANAGEMENT DISCUSSION AND ANALYSIS

SUBSEQUENT EVENTS

On 20 March 2012, Synergy Eagle Limited (the "Buyer"), a wholly-owned subsidiary of the Company, and an independent third party (the "Seller") entered into a share purchase agreement (the "Agreement") pursuant to which the Seller has agreed to sell to the Buyer the entire equity interests in Big Step Limited ("Big Step") ("Acquisition").

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

The Acquisition was completed on 1 March 2013 and the total consideration of RMB880.0 million is to be settled in cash.

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.

REPORT OF THE DIRECTORS

The board of directors (the "Board") have pleasure in submitting their annual report together with the audited financial statements for the year ended 31 December 2012.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holdings. The principal activities and other particulars of the principal subsidiaries are set out in note 40 to the financial statements.

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

RESULTS AND DIVIDENDS

The profit of the Group for the year ended 31 December 2012 and the financial position of the Group and of the Company as at that date are set out in the financial statements on pages 56 to 128.

The Board declared on 21 August 2012 an interim dividend of RMB8.0 cents per ordinary share, totaling RMB674.7 million. The interim dividend was paid on 18 October 2012.

The Board recommended the payment of a final dividend for the year ended 31 December 2012 of RMB8.0 cents (equivalent to HK9.91 cents) per ordinary share, totaling RMB674.7 million.

The translation of RMB into Hong Kong dollars is made for illustration purpose only, at the rate of HK$1.00=RMB0.8076. The actual translation rate for the purpose of dividend payment in Hong Kong dollars will be the official fixing exchange rate of RMB against Hong Kong dollars as quoted by the People's Bank of China on 28 May 2013, being the date on which the dividend is proposed to be approved by the shareholders of the Company at its annual general meeting.

CLOSURE OF REGISTER OF MEMBERS

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

(a) For the purpose of ascertaining shareholder's eligibility to attend and vote at the annual general meeting to be held on Tuesday, 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.

REPORT OF THE DIRECTORS

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.

DISTRIBUTABLE RESERVES

As at 31 December 2012, distributable reserves (including share premium and retained earnings) of the Company amounted to RMB11,821.5 million (2011: RMB11,664.6 million). The movements in distributable reserves during the year are set out in notes 32 and 33 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

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

Purchases from the Group's five largest suppliers accounted for approximately 45.89% of the Group's total purchases for the year and purchases from the largest supplier included therein accounted for approximately 24.35% of the Group's purchases.

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

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group acquired property, plant and equipment of RMB1,336.7 million (2011: RMB1,225.3 million). Details of the movements in property, plant and equipment are set out in note 15 to the financial statements.

SHARE CAPITAL

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

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

Particulars of share capital and share premium of the Company during the year are set out in note 32 to the financial statements.

PRE-EMPTIVE RIGHTS

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

REPORT OF THE DIRECTORS

DIRECTORS

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

Chairman

Mr. Tang Yiu* *(Non-executive Director)*

Executive Directors

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

Non-executive Directors

Mr. Gao Yu
Ms. Hu Xiaoling

Independent Non-executive Directors

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

* Retired as an Executive Director and was re-elected as a Non-executive Director with effective from the conclusion of 2011 annual general meeting held on 29 May 2012.

In accordance with article 87 of the Company's articles of association, Mr. Tang King Loy (an Executive Director), Mr. Gao Yu (a Non-executive Director) and Mr. Chan Yu Ling, Abraham (an Independent Non-executive Director) shall retire from office by rotation at the forthcoming annual general meeting. Mr. Tang King Loy, Mr. Gao Yu and Mr. Chan Yu Ling, Abraham, being eligible, offer themselves for re-election as Directors at the forthcoming annual general meeting.

The biographical details of the Directors and senior management as at the date of this report are set out in this report on pages 49 to 52.

DIRECTORS' SERVICE CONTRACTS

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

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

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

There was no arrangement under which a Director waived or agreed to waive any remuneration during the year ended 31 December 2012.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2012, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

(i) Interests in issued shares of the Company

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

Notes:

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

(2) These ordinary shares of HK$0.01 each in the share capital of Company ("Shares") were held by Profit Leader Holdings Limited ("Profit Leader"). Mr. Tang Yiu was beneficially interested in 65.00% of the issued share capital of Merry Century Investments Limited ("Merry Century"), which was interested in 55.73% of the issued share capital of Profit Leader.

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

(ii) Interests in underlying shares of the Company

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

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

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2012, the interests or short positions of the persons, other than Directors and chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO, were as follows:

Name of shareholders	Capacity/ Nature of interest	Number of Shares *(Note 1)*	Approximate percentage of interest in the Company
Credit Suisse Trust Limited	Trustee	3,781,750,000(L)	44.84%
Handy Limited	Beneficial interest	580,877,000(L)	6.89%
Essen Worldwide Limited	Beneficial interest	573,373,000(L)	6.80%
Profit Leader	Beneficial interest	2,627,500,000(L)	31.15%
Best Contact Holdings Limited	Interest in controlled corporation *(Note 2)*	580,877,000(L)	6.89%
Merry Century	Interest in controlled corporation *(Note 3)*	2,627,500,000(L)	31.15%
Golden Coral Holdings Limited	Interest in controlled corporation *(Note 3)*	2,627,500,000(L)	31.15%
Mr. Tang Wai Lam	Interest in controlled corporation *(Note 4)*	2,627,500,000(L)	31.15%
	Beneficial interest	17,887,500(L)	0.21%
	Interest of spouse/child	2,000,000(L)	0.02%
JPMorgan Chase & Co. *(Note 5)*	Beneficial owner/ Investment manager/ Custodian corporation/ Approved lending agent	593,180,490(L)	7.03%
	Beneficial owner	6,978,001(S)	0.08%
	Custodian corporation/ Approved lending agent	375,397,959(P)	4.45%

Notes:

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

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

(3) These Shares were held by Profit Leader. Merry Century was interested in 55.73% of the issued share capital of Profit Leader. Golden Coral Holdings Limited was interested in 33.35% of the issued share capital of Profit Leader.

(4) These Shares were held by Profit Leader. Mr. Tang Wai Lam was beneficially interested in 35.00% of the issued share capital of Merry Century, which was interested in 55.73% of share capital of Profit Leader.

(5) JPMorgan Chase & Co., through various subsidiaries, had interest in the Shares, of which 23,823,531 Shares (long position) and 6,978,001 Shares (short position) were held in its capacity as beneficial owner, 193,959,000 Shares (long position) were held in its capacity as investment manager and 375,397,959 Shares (long position) were held in its capacity as custodian corporation/approved lending agent.

Save as disclosed above, no other parties (other than Directors and chief executive of the Company) has disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of SFO or were recorded in the register kept by the Company under section 336 of the SFO as having an interest or a short position in the shares or underlying shares of the Company as at 31 December 2012.

SHARE OPTION SCHEME

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

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

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

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

REPORT OF THE DIRECTORS

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

SUFFICIENCY OF PUBLIC FLOAT

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

DIRECTORS' INTERESTS IN CONTRACTS

No contract of significance to which the Company or any of its subsidiaries was a party, and in which a Director of the Company had a material interest, either directly or indirectly, were subsisting during or at the end of the year ended 31 December 2012.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

BANK BORROWINGS

Particulars of bank borrowings of the Company and of the Group as at 31 December 2012 are set out in note 31 to the financial statements.

CONNECTED TRANSACTION

The Company did not (i) have any outstanding continuing connected transaction or (ii) enter into any connected transaction for the year ended 31 December 2012.

None of the related party transactions set out in note 38 to the financial statements constitutes connected transactions or continuing connected transactions under Chapter 14A of the Listing Rules.

REPORT OF THE DIRECTORS

FIVE-YEAR FINANCIAL SUMMARY

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

	2012	2011	2010	2009	2008
	RMB million	*RMB million*	*RMB million*	*RMB million*	*RMB million*
Revenue	**32,859.0**	28,944.7	23,705.9	19,761.6	17,855.8
Gross profit	**18,598.2**	16,555.9	13,208.4	10,541.6	9,228.4
Gross profit margin	**56.60%**	57.20%	55.72%	53.34%	51.68%
Operating profit	**5,402.9**	5,264.8	3,962.5	2,824.2	2,279.3
Operating profit margin	**16.44%**	18.19%	16.72%	14.29%	12.77%
Profit attributable to equity holders of the Company	**4,352.3**	4,254.6	3,424.5	2,533.5	2,010.4
Structured bank deposits, term deposits, bank balances and cash	**8,525.4**	6,750.9	5,893.2	5,792.4	2,984.6
Bank loans and bills payable	**2,176.3**	1,895.4	680.7	1,115.3	503.5
Total assets	**28,602.8**	25,681.2	20,832.0	18,624.7	17,022.6
Total liabilities	**6,039.4**	6,087.4	3,717.2	3,301.7	3,591.2
Total equity	**22,563.4**	19,593.8	17,114.8	15,323.0	13,431.4

RETIREMENT SCHEMES

Particulars of the retirement schemes of the Group are set out in note 13 to the financial statements.

CONFIRMATION OF INDEPENDENCE

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

AUDITOR

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

By order of the Board

Tang Yiu
Chairman

Hong Kong, 25 March 2013

CORPORATE GOVERNANCE REPORT

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

After reviewing the Company's corporate governance practices and the relevant regulations of the Code on Corporate Governance (the "Former CG Code") and the revised and renamed Corporate Governance Code and Corporate Governance Report (the "New CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (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.

BOARD

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

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

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

* Retired as an Executive Director and was re-elected as a Non-executive Director with effective from the conclusion of 2011 annual general meeting held on 29 May 2012.

CORPORATE GOVERNANCE REPORT

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

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

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

* Retired as an Executive Director and was re-elected as a Non-executive Director with effective from the conclusion of 2011 annual general meeting held on 29 May 2012.

\# Non-executive Directors

@ Independent Non-executive Directors

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

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

Biographical details of the Directors and senior management of the Company as at the date of this report are set out on pages 49 to 52 of this annual report.

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

Directors' Training

Upon appointment to the Board, Directors receive a package of orientation materials on the Group and are provided with a comprehensive induction to the businesses of the Group by senior executives.

As a matter of continuing professional development training, the Company provides training and briefing sessions to Directors during the year of 2012, to ensure that they are apprised of the latest development regarding the Listing Rules and other applicable statutory requirements and to refresh their knowledge and skills in relation to their contribution to the Board. In addition, the Directors have been developing and refreshing their skills and knowledge by studying relevant materials from time to time concerning directors of listed companies.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

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

In accordance with article 87 of the Company's articles of association, Mr. Tang King Loy (an Executive Director), Mr. Gao Yu (a Non-executive Director) and Mr. Chan Yu Ling, Abraham (an Independent Non-executive Director) shall retire from office by rotation at the forthcoming annual general meeting. Mr. Tang King Loy, Mr. Gao Yu and Mr. Chan Yu Ling, Abraham, being eligible, offer themselves for re-election as Directors at the forthcoming annual general meeting.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

AUDIT COMMITTEE

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

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

The Audit Committee met three times in the year of 2012. Major work completed by the Audit Committee during the year includes:

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

REMUNERATION COMMITTEE

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

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

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

The Remuneration Committee held two meeting during the year of 2012. The members of the Remuneration Committee reviewed the Group's remuneration policy for the year 2012 at the meeting.

NOMINATION COMMITTEE

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

The Nomination Committee held one meeting during the year of 2012. 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.

CORPORATE GOVERNANCE REPORT

DIRECTORS' AND AUDITOR'S RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors are responsible for overseeing the preparation of financial statements for each financial period to ensure that they give a true and fair view of the financial position of the Company and the Group, and of the Group's financial performance and cash flows for that period. The Directors were not aware of any material uncertainties relating to events or conditions that might cast significant doubt upon the Company's ability to continue as a going concern. The Company's financial statements are prepared in accordance with all relevant statutory requirements and applicable accounting standards. The Directors are responsible for ensuring that appropriate accounting policies are selected and applied consistently, and that judgments and estimates made are prudent and reasonable.

The statement by the auditor of the Company regarding their reporting responsibilities on the financial statements of the Group is set out in the Independent Auditor's Report on pages 54 and 55.

COMPANY SECRETARY

Mr. Leung Kam Kwan is the Company Secretary of the Company. He is a full time employee of the Company who has day-to-day knowledge of the Company and is responsible for advising the Board on corporate governance matters.

In response to specific enquiries made, the Company Secretary confirmed that he has complied with all the required qualifications, experience and training requirements of the Listing Rules.

INTERNAL CONTROL

The Board is responsible for maintaining sound and effective internal controls to safeguard the shareholders' investment and the Company's assets. The Board convenes meetings with the Audit Committee to conduct regular reviews of the effectiveness of the internal control system of the Company and the Group. During the year ended 31 December 2012, the Board, through the Audit Committee, reviewed the overall effectiveness of the Group's internal control system, including the financial, operational and compliance controls, risk management functions, adequacy of resources, qualifications and experience of staff of the accounting and financial reporting function, and their training programmes and budget. The Directors are of the view that the existing system of internal control is effective and adequate to the Group.

REMUNERATION POLICY

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

Details of the emoluments for Directors, Chief Executive Officer and five highest paid individuals, and senior management remuneration by band for the year are set out in note 14 to the financial statements.

AUDITOR'S REMUNERATION

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

	2012
	RMB million
Audit services	**8.9**
Audit-related services	**1.2**
Non-audit services (mainly tax compliance and advisory services)	**0.2**
Total	**10.3**

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions of the Directors 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.

CORPORATE SOCIAL RESPONSIBILITY

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

INVESTOR AND SHAREHOLDER RELATIONS

The Board is dedicated to maintain an on-going dialogue with the shareholders and the investors of the Company. Information is communicated to the shareholders and the investors mainly through the Company's financial reports (interim and annual reports), general meetings, as well as by making available all the disclosures submitted to the Stock Exchange and its corporate communications and other corporate publications on the Company's website. Investors and analysts briefings and roadshows, and press conferences are conducted on a regular basis in order to facilitate communication between the Company, the shareholders and the investors. The Board strives to ensure effective and timely dissemination of information to the shareholders and the investors at all times and reviews regularly the above arrangements to ensure its effectiveness.

During the year of 2012, all Directors attended the annual general meeting of the Company held on 29 May 2012 with the exception of Mr. Tang Yiu, Ms. Hu Xiaoling and Dr. Xue Qiuzhi.

CORPORATE GOVERNANCE REPORT

SHAREHOLDERS' RIGHTS

The Company aims to, via its corporate governance structure, enable all its shareholders an equal opportunity to exercise their rights in an informed manner and allow all shareholders to engage actively with the Company.

Under the Company's Articles of Association, the Shareholder Communication Policy and other relevant internal procedures of the Company, the shareholders of the Company enjoy, among others, the following rights:

1. Convening Extraordinary General Meetings

Any one or more shareholders of the Company holding not less than one-tenth of the issued share capital of the Company carrying the right of voting at general meetings may require an extraordinary general meeting by a written requisition to the Board or the Company Secretary. The Board shall then hold a general meeting within two months after receipt of such requisition.

2. Participation at General Meetings

The Company encourages shareholders to participate in general meetings, either in person or via proxies, to exercise their rights. The general meetings provide important opportunities for shareholders to express their views to the Board and management. The Company provides details of the general meetings to the shareholders in a notice prior to the meeting in compliance with the Articles of Association of the Company and the Listing Rules. Shareholders are encouraged to ask questions about or comment on the results, operations, strategy and/or management of the Group at general meetings. The chairman of the Board committees, appropriate management executives and auditors of the Company will be available at general meetings to answer questions from shareholders. Time is set aside in each general meeting for such question and answer session.

3. Enquiries and Proposals to the Board

The Shareholder Communication Policy sets out detailed procedures under which the shareholders of the Company may communicate to the Board any enquiries they may have. All shareholder correspondences received by the Company will be delivered to the Group's investor relation staff for an initial review. The investor relation staff will maintain a log of the correspondences and forward either a summary or a copy of the correspondences to the Board for consideration at its next meeting.

Apart from the above, the shareholders of the Company also have the right to nominate candidates to be Directors of the Company. Following the relevant procedures which are made available to the shareholders, the shareholders may at any time send a notice of nomination setting out the information required to the Nomination Committee of the Company. After evaluation, the Nomination Committee may make recommendation to the Board which will then evaluate the nomination.

BIOGRAPHICAL DATA OF DIRECTORS AND SENIOR MANAGEMENT

CHAIRMAN – NON-EXECUTIVE DIRECTOR

Mr. Tang Yiu ("Mr. Tang"), aged 78, is our Non-executive Director, Chairman of the Company and the founder of the Group. Mr. Tang acted as Executive Director of our Company from September 2005 to May 2012. With over 35 years of experience in the footwear manufacturing industry, he is currently the Chairman of The Federation of Hong Kong Footwear Limited and the honorary president of the Sam Shui Natives Association. Mr. Tang was a committee member of the Chinese People's Political Consultative Conference in the Sanshui District of Foshan in the PRC from 2005 to 2012 and a committee member of the China Trade Advisory Committee of Hong Kong Trade Development Council from 2007 to 2011. Mr. Tang has also been awarded with the Certificate of Foshan Honorary Citizenship by the Foshan Municipality in the PRC in November 2004. Mr. Tang is the father of Mr. Tang King Loy, an Executive Director. Mr. Tang also holds directorships in certain subsidiaries of the Company. Mr. Tang is also a director of Profit Leader Holdings Limited and Merry Century Investments Limited, both of which have an interest in the Shares and underlying Shares of the Company required to be disclosed to the Company under Part XV of the Securities and Futures Ordinance ("SFO"). Please refer to pages 37 to 39 for the disclosure of the interest in the Shares and underlying Shares of the Company of Mr. Tang and Profit Leader Holdings Limited under Part XV of the SFO.

EXECUTIVE DIRECTORS

Mr. Sheng Baijiao ("Mr. Sheng"), aged 60, is our Executive Director and the Chief Executive Officer of the Company. Mr. Sheng has joined the Group since 1991 and has over 25 years of experience in the footwear industry. Mr. Sheng is primarily responsible for the Group's overall strategic planning and the management of the Group's business. Prior to joining the Group, Mr. Sheng worked at the China Merchants Shekou Industrial Zone Light & Textile Industries Development Company (招商局蛇口工業區輕紡開發公司). Mr. Sheng is currently the vice chairman of the China Leather Industry Association and the chairman of the ShenZhen Leather Association. Mr. Sheng is an uncle of Mr. Sheng Fang, an Executive Director. Mr. Sheng also holds directorships in certain subsidiaries of the Company. Mr. Sheng is indirectly interested in the issued share capital of Handy Limited, a shareholder of the Company, through a trust which Mr. Sheng is a founder and beneficiary. Mr. Sheng is also a director of Handy Limited. Please refer to pages 37 to 39 for the disclosure of the interest in the Shares and underlying Shares of the Company of Mr. Sheng and Handy Limited under Part XV of the SFO.

Mr. Tang King Loy, aged 42, is our Executive Director and Senior Vice President. Mr. Tang King Loy has joined the Group since 1999 and has almost 15 years of experience in footwear industry. Mr. Tang King Loy is primarily responsible for implementation of decisions and policies in regard to the Group's overall business plan as approved by the Board of Directors and the Chief Executive Officer, as well as the management of footwear business. Mr. Tang King Loy graduated from The University of Hong Kong with a Bachelor's degree of science and a Master's degree in physics. He is currently the vice president of The Federation of Hong Kong Footwear Limited. Mr. Tang King Loy has been appointed as one of the authorized representatives of the Company. Mr. Tang King Loy is a son of Mr. Tang, the Chairman and the Non-executive Director of the Company. Mr. Tang King Loy also holds directorships in certain subsidiaries of the Company.

BIOGRAPHICAL DATA OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Sheng Fang, aged 41, is our Executive Director and Senior Vice President. Mr. Sheng Fang has joined the Group since 2005 and has over 15 years of experience in the management of footwear retail business. Mr. Sheng Fang is primarily responsible for operation management of the Group's footwear retail business. Mr. Sheng Fang studied at Tongji University from 1989 to 1993, specializing in electrical engineering. He was a representative of the 13th and 14th People's Congress of Hongkou District, Shanghai. He is currently a council member of College of Design and Innovation of Tongji University. Mr. Sheng Fang is a nephew of Mr. Sheng, the Chief Executive Officer and the Executive Director of the Company. Mr. Sheng Fang also holds directorships in certain subsidiaries of the Company.

NON-EXECUTIVE DIRECTORS

Mr. Gao Yu ("Mr. Gao"), aged 39, is our Non-executive Director. Mr. Gao was appointed as a Director of the Company in August 2006. He is currently a managing director of the Private Equity Division of Morgan Stanley Asia Limited, primarily focusing on private equity investment activities in China, and a non-executive director of both China Dongxiang (Group) Co., Ltd. and Sparkle Roll Group Ltd, both being companies listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange"), and a director of Tongkun Group Co., Ltd which is listed on Shanghai Stock Exchange. Prior to joining Morgan Stanley Asia Limited, he worked in Citigroup's Investment Banking Division in Asia for about 5 years. Mr. Gao has worked in Donaldson, Lufkin & Jenrette Inc's Debt Capital Markets Group in New York. Mr. Gao graduated from Stanford University with a Master's degree in engineering-economic systems and operations research as well as from Tsinghua University in Beijing with dual Bachelor degrees in engineering and economics.

Ms. Hu Xiaoling ("Ms Hu"), aged 42, is our Non-executive Director. Ms. Hu was appointed as a Director of the Company in September 2005. She joins CDH Investments in 2002 and is currently a managing director of CDH Investments Management (Hong Kong) Limited. She is also a non-executive director of both SUNAC China Holdings Limited, whose shares are listed on the Hong Kong Stock Exchange and SYSWIN Inc., whose shares are listed on the New York Stock Exchange. Ms. Hu is a director of Midea Group Co. Ltd., Anhui Yingliu Electromechanical Co., Limited and Beijing Motie Book Co., Limited as well. Prior to joining CDH Investments Management (Hong Kong) Limited, Ms. Hu worked for China International Capital Co., Limited and Arthur Anderson. She is a fellow member of the Association of Chartered Certified Accountants. Ms. Hu graduated from Beijing Jiaotong University, previously known as Northern Jiaotong University, with a Master's degree in economics and accounting and Bachelor's degree in economics.

BIOGRAPHICAL DATA OF DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Ho Kwok Wah, George ("Mr. Ho"), FCPA (Practising), aged 54, is our Independent Non-executive Director. Mr. Ho was appointed as a Director of the Company in October 2006. Mr. Ho has over 25 years of experience in accounting, auditing and financial management. He is currently a fellow member of the Association of Chartered Certified Accountants and Hong Kong Institute of Certified Public Accountants. From 2001 to 2003, Mr. Ho was the president of The Hong Kong Institute of Accredited Accounting Technicians. Mr. Ho is currently the proprietor of George K.W. Ho & Co., Certified Public Accountants. Mr. Ho is also currently a director of The Taxation Institute of Hong Kong and the Hong Kong Commerce and Industry Associations Limited and the Hong Kong Shatin Industries and Commerce Association Limited. Mr. Ho is currently an independent non-executive director and an audit committee member of Town Health International Holdings Limited, as well as an independent non-executive director, chairman of audit committee, and member of remuneration and nomination committee of Rykadan Capital Limited (formerly known as Sundart International Holdings Limited), both being companies listed on the Main Board of the Hong Kong Stock Exchange.

Mr. Chan Yu Ling, Abraham ("Mr. Chan"), aged 52, is our Independent Non-executive Director. Mr. Chan was appointed as a Director of the Company in October 2006. Mr. Chan is a chartered engineer in the United Kingdom, a professional engineer in Ontario, Canada and is currently the Chairman of PuraPharm Corporation Limited. Mr. Chan is also currently a member of the Institution of Structural Engineers in the United Kingdom, a committee member of the Chinese People's Political Consultative Conference in Guangxi Zhuang Autonomous Region in the PRC, the former President and Council Member of the Modernized Chinese Medicine International Association Limited, a member of the Chinese Medicine Development Committee, and a former member of Commission on Strategic Development (Commission Economic Development and Economic Cooperation with the Mainland) and part-time member of the Central Policy Unit of The Government of Hong Kong Special Administrative Region. Mr. Chan graduated from the University of Toronto in Canada with a Bachelor's degree in applied science in 1982.

Dr. Xue Qiuzhi ("Dr. Xue"), aged 61, is our Independent Non-executive Director. Dr. Xue was appointed as a Director of the Company in October 2006. Dr. Xue is currently an associate dean of the School of Management of Fudan University. Dr. Xue has been a professor of Management of Fudan University since 1996. Dr. Xue was the head of the Department of International Business Administration of Fudan University from 1993 to 1999, and the head of the Department of Business Administration at the same university from 1999 to 2003. Dr. Xue graduated from Wuhan University with a Bachelor's degree in economics in 1982 and obtained a Master's degree in political economics and a Doctoral degree in economics from the Universite Libre de Bruxelles in Belgium in 1984 and 1988, respectively.

BIOGRAPHICAL DATA OF DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. Song Xiaowu ("Mr. Song"), aged 48, is our deputy general manager who is primarily responsible for the production management of the Group. Mr. Song joined the Group in 1993 and has over 15 years of experience in the footwear production management. Mr. Song was also previously responsible for various production processes such as production, technology and quality control.

Ms. Li Zhao ("Ms. Li"), aged 55, is our deputy general manager who is primarily responsible for the sales division of our sportswear retail business. Ms. Li had joined the Group in 1995 and left the Group in 1997. She subsequently rejoined the Group in 2005. Prior to joining the Group, Ms. Li worked for the China Merchants Shekou Industrial Zone Light & Textile Industries Development Company (招商局蛇口工業區輕紡開發公司) and China Textile Academy (中國紡織科學研究院). Ms. Li graduated from Donghua University with a Bachelor's degree in textile mechanical engineering. Ms. Li also holds a Master's degree in business administration from Shanghai Maritime University and a Master of Business Administration for Senior Management from the Shanghai Jiaotong University.

COMPANY SECRETARY

Mr. Leung Kam Kwan ("Mr. Leung"), FCPA, aged 48, is our company secretary and the chief financial manager. Mr. Leung joined the Group in September 2004. Mr. Leung has over 20 years of experience in accounting, financial management and internal control. Prior to joining the Group, Mr. Leung had held various senior positions at listed companies in Hong Kong and had previously worked for KPMG. Mr. Leung graduated from City University of Hong Kong with a Bachelor's degree in accounting. He is also a fellow member of the Association of Chartered Certified Accountants and Hong Kong Institute of Certified Public Accountants, as well as a member of the Hong Kong Institute of Chartered Secretaries.

Notes:

(1) The Directors' interests in Shares and underlying Shares of the Company, if any, within the meaning of Part XV of the SFO as at 31 December 2012 are disclosed in the section headed "Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures" in this report. Saved as disclosed above and in this annual report, none of the Directors has any other interest in Shares and underlying Shares within the meaning of Part XV of the SFO.

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

(3) In accordance with article 87 of the Company's articles of association, Mr. Tang King Loy (an Executive Director), Mr. Gao (a Non-executive Director) and Mr. Chan (an Independent Non-executive Director) shall retire from office by rotation at the forthcoming annual general meeting. Mr. Tang King Loy, Mr. Gao and Mr. Chan, being eligible, offer themselves for re-election as Directors at the forthcoming annual general meeting.

INDEPENDENT AUDITOR'S REPORT

羅兵咸永道

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

We have audited the consolidated financial statements of Belle International Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 56 to 128, which comprise the consolidated and company balance sheets as at 31 December 2012, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

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INDEPENDENT AUDITOR'S REPORT

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012, and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

OTHER MATTERS

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 25 March 2013

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2012

		Year end 31 December	
		2012	2011
	Note	***RMB million***	*RMB million*
Revenue	5	**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	6	**272.9**	114.1
Operating profit	7	**5,402.9**	5,264.8
Finance income		**309.4**	224.1
Finance costs		**(40.7)**	(18.8)
Finance income, net	8	**268.7**	205.3
Share of profit of an associate	20	**4.9**	0.4
		273.6	205.7
Profit before income tax		**5,676.5**	5,470.5
Income tax expense	9	**(1,351.4)**	(1,232.0)
Profit for the year		**4,325.1**	4,238.5
Attributable to:			
Equity holders of the Company	10	**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	11		
– basic		**RMB51.60 cents**	RMB50.44 cents
– diluted		**RMB51.60 cents**	RMB50.44 cents

The notes on pages 63 to 128 are an integral part of these consolidated financial statements.

Details of dividends payable to equity holders of the Company attributable to the profit for the year are set out in Note 12.

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

The notes on pages 63 to 128 are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2012

	Note	As at 31 December 2012 RMB million	2011 RMB million
ASSETS			
Non-current assets			
Property, plant and equipment	15	**3,347.2**	2,851.6
Land use rights	16	**1,290.5**	817.7
Investment properties	17	**335.4**	11.0
Intangible assets	18	**2,731.6**	2,790.3
Interests in associates and jointly controlled entities	20	**109.3**	61.6
Long-term deposits and prepayments	21	**603.5**	962.8
Deferred income tax assets	22	**465.6**	370.1
Structured bank deposits	25	**103.5**	—
		8,986.6	7,865.1
Current assets			
Inventories	23	**7,032.7**	6,516.6
Trade receivables	24	**3,134.3**	2,745.9
Deposits, prepayments and other receivables	21	**1,027.3**	1,753.4
Structured bank deposits	25	**5,642.5**	3,369.1
Term deposits with initial terms of over three months	26	**492.5**	495.0
Cash and cash equivalents	27	**2,286.9**	2,886.8
		19,616.2	17,766.8
Non-current assets held for sale	28	**—**	49.3
		19,616.2	17,816.1
Total assets		**28,602.8**	25,681.2

The notes on pages 63 to 128 are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2012

	Note	As at 31 December 2012 RMB million	2011 RMB million
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	32	**83.1**	83.1
Share premium		**9,214.1**	9,214.1
Reserves	33	**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	22	**110.9**	182.8
Deferred income		**69.2**	75.0
		180.1	257.8
Current liabilities			
Trade payables	29	**1,153.3**	1,248.3
Other payables, accruals and other current liabilities	30	**1,457.6**	1,324.8
Short-term borrowings	31	**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

Sheng Baijiao
Director

Tang King Loy
Director

The notes on pages 63 to 128 are an integral part of these consolidated financial statements.

BALANCE SHEET

AS AT 31 DECEMBER 2012

		As at 31 December	
		2012	2011
	Note	***RMB million***	*RMB million*
ASSETS			
Non-current assets			
Interests in subsidiaries	19	**10,892.9**	10,788.2
Current assets			
Amounts due from subsidiaries	19	**3,344.1**	3,629.5
Prepayments	21	**0.5**	0.6
Cash and cash equivalents	27	**2.0**	1.7
		3,346.6	3,631.8
Total assets		**14,239.5**	14,420.0
EQUITY			
Capital and reserves			
Share capital	32	**83.1**	83.1
Share premium	32	**9,331.9**	9,331.9
Reserves	33	**2,489.7**	2,332.8
Total equity		**11,904.7**	11,747.8
LIABILITIES			
Current liabilities			
Amounts due to subsidiaries	19	**2,333.2**	2,668.8
Other payables and accruals	30	**1.6**	3.4
Total liabilities		**2,334.8**	2,672.2
Total equity and liabilities		**14,239.5**	14,420.0
Net current assets		**1,011.8**	959.6
Total assets less current liabilities		**11,904.7**	11,747.8

Sheng Baijiao
Director

Tang King Loy
Director

The notes on pages 63 to 128 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2012

	Capital and reserves attributable to equity holders of the Company									
	Share capital RMB million (Note 32)	Share premium RMB million	Merger reserve RMB million (Note 33(b))	Statutory reserves RMB million (Note 33(c))	Capital redemption reserve RMB million	Exchange reserve RMB million	Retained earnings RMB million	Subtotal RMB million	Non-controlling interests RMB million	Total RMB million
For the year ended 31 December 2012										
As at 1 January 2012	**83.1**	**9,214.1**	**3.5**	**565.6**	**0.1**	**(61.1)**	**9,618.4**	**19,423.7**	**170.1**	**19,593.8**
Comprehensive income: Profit for the year	**—**	**—**	**—**	**—**	**—**	**—**	**4,352.3**	**4,352.3**	**(27.2)**	**4,325.1**
Other comprehensive loss: Exchange differences	**—**	**—**	**—**	**—**	**—**	**(6.1)**	**—**	**(6.1)**	**—**	**(6.1)**
Total comprehensive (loss)/income for the year	**—**	**—**	**—**	**—**	**—**	**(6.1)**	**4,352.3**	**4,346.2**	**(27.2)**	**4,319.0**
Dividends	**—**	**—**	**—**	**—**	**—**	**—**	**(1,349.4)**	**(1,349.4)**	**—**	**(1,349.4)**
Transfer to reserves	**—**	**—**	**—**	**350.2**	**—**	**—**	**(350.2)**	**—**	**—**	**—**
	—	**—**	**—**	**350.2**	**—**	**—**	**(1,699.6)**	**(1,349.4)**	**—**	**(1,349.4)**
As at 31 December 2012	**83.1**	**9,214.1**	**3.5**	**915.8**	**0.1**	**(67.2)**	**12,271.1**	**22,420.5**	**142.9**	**22,563.4**
For the year ended 31 December 2011										
As at 1 January 2011	83.1	9,214.1	3.5	407.9	0.1	(50.4)	7,456.6	17,114.9	—	17,114.9
Comprehensive income: Profit for the year	—	—	—	—	—	—	4,254.6	4,254.6	(16.1)	4,238.5
Other comprehensive loss: Exchange differences	—	—	—	—	—	(10.7)	—	(10.7)	—	(10.7)
Total comprehensive (loss)/income for the year	—	—	—	—	—	(10.7)	4,254.6	4,243.9	(16.1)	4,227.8
Dividends	—	—	—	—	—	—	(1,939.9)	(1,939.9)	—	(1,939.9)
Acquisition of subsidiaries *(Note 36)*	—	—	—	—	—	—	—	—	19.0	19.0
Transactions with non-controlling interests	—	—	—	—	—	—	4.8	4.8	167.2	172.0
Transfer to reserves	—	—	—	157.7	—	—	(157.7)	—	—	—
	—	—	—	157.7	—	—	(2,092.8)	(1,935.1)	186.2	(1,748.9)
As at 31 December 2011	83.1	9,214.1	3.5	565.6	0.1	(61.1)	9,618.4	19,423.7	170.1	19,593.8

The notes on pages 63 to 128 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	Year ended 31 December 2012 RMB million	2011 RMB million
Cash flows from operating activities			
Net cash generated from operations	34(a)	**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 associate and jointly controlled entity	20	**(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	34(b)	**(1,520.4)**	(1,697.4)
Proceeds from sale of property, plant and equipment	34(c)	**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

The notes on pages 63 to 128 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 ORGANIZATION AND PRINCIPAL ACTIVITIES

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

The Company was incorporated in the Cayman Islands on 19 May 2004 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of its registered office is 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").

These 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The consolidated financial statements have been prepared under the historical cost convention.

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

(a) Effect of adopting amendments to standards

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

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

The following new standards, amendments to standards and interpretation have been issued but are not effective in 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 these consolidated financial statements have been rounded off in million of units of RMB to one decimal place, unless otherwise stated.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Consolidation

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

(a) Subsidiaries

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

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

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

(i) Business combinations

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Consolidation (continued)

(a) Subsidiaries (continued)

(ii) Changes in ownership interests in subsidiaries without change of control

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

(iii) Disposal of subsidiaries

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

(b) Separate financial statements

Investments in subsidiaries are accounted for at cost less any impairment, if any. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Consolidation (continued)

(c) Transactions with non-controlling interests

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

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

(d) Associates and jointly controlled entities

(i) Associates

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

(ii) Jointly controlled entities

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities. The Group's interests in jointly controlled entities are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in jointly controlled entities includes goodwill identified on acquisition, net of any accumulated impairment loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Consolidation (continued)

(d) Associates and jointly controlled entities (continued)

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

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

The Group determines at each reporting date whether there is any objective evidence that the investment in an associate/a jointly controlled entity is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate/jointly controlled entity and its carrying value and recognizes the amount adjacent to 'share of profit/(loss) of an associate/a jointly controlled entity' in the income statement.

Profits and losses resulting from upstream and downstream transactions between the Group and its associates/jointly controlled entities are recognized in the Group's financial statements only to the extent of unrelated investor's interests in the associates/jointly controlled entities. Unrealized losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates/jointly controlled entities have been changed where necessary to ensure consistency with the policies adopted by the Group. Dilution gains and losses arising from investments in associates/jointly controlled entities are recognized in the income statement.

2.3 Foreign currency translation

(a) Functional and presentation currency

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Foreign currency translation (continued)

(b) Transactions and balances

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

(c) Group companies

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

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

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

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

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

2.4 Segment reporting

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Property, plant and equipment

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

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

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

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

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

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

2.6 Construction-in-progress

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Land use rights

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

2.8 Investment properties

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

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

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

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

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

2.9 Intangible assets

(a) Goodwill

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Intangible assets (continued)

(b) Acquired distribution and license contracts

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

(c) Acquired trademarks

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

(d) Computer software

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

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

2.10 Impairment of non-financial assets

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

2.11 Non-current assets held for sale

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12 Inventories

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

2.13 Receivables

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

2.14 Financial assets

(a) Classification

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.14 Financial assets (continued)

(a) Classification (continued)

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled. The Group's loans and receivables include trade receivables, structured bank deposits, term deposits, cash and cash equivalents, deposits and other receivables in the consolidated balance sheet.

(iii) Available-for-sale financial assets

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

As at 31 December 2011 and 2012, the Group did not hold any significant financial assets at fair value through profit or loss or available-for-sale financial assets.

(b) Recognition and measurement

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

(c) Offsetting financial instruments

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

(d) Impairment of financial assets

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.14 Financial assets (continued)

(d) Impairment of financial assets (continued)

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

For loan and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognized in the income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

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

2.15 Cash and cash equivalents

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

2.16 Financial liabilities and equity

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.17 Borrowings and borrowing costs

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

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

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are charged to the income statement in the period in which they are incurred.

2.18 Current and deferred income tax

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

(a) Current income tax

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

(b) Deferred income tax

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.18 Current and deferred income tax (continued)

(b) Deferred income tax (continued)

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

(c) Offsetting

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

2.19 Employee benefits

(a) Pension obligations

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

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

(b) Bonus entitlements

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.20 Provisions

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

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

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

2.21 Operating leases

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

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

2.22 Government incentives

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.23 Financial guarantee contract liabilities

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

2.24 Revenue and income recognition

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

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

(a) Sales of goods

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

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

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

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

2.25 Dividend distribution

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

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

(a) Foreign exchange risk

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

The Group manages its foreign exchange risk by performing regular reviews of the Group's net foreign exchange exposures and may enter into certain forward foreign exchange contracts, when necessary, to manage its exposure against HK$ and US$ and to mitigate the impact on exchange rate fluctuations. During the years ended 31 December 2011 and 2012, no forward foreign exchange contracts had been entered into by the Group.

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

As at 31 December 2012, if RMB has strengthened or weakened by 5% against HK$ with all other variables held constant, profit for the year would have been RMB98.2 million (2011: RMB79.8 million) higher/lower, mainly as a result of foreign exchange gains/losses on translation of HK$ denominated receivables, cash and cash equivalents, payables and borrowings.

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(b) Cash flow and fair value interest rate risks

The Group's income and operating cash flows are substantially independent of changes in market interest rates and the Group has no significant interest-bearing assets except for the cash at banks and certain structured bank deposits and term deposits, details of which have been disclosed in Notes 25 to 27. The Group's exposure to changes in interest rates is also attributable to its borrowings, details of which have been disclosed in Note 31. Borrowings carry at floating rates expose the Group to cash flow interest-rate risk whereas those carry at fixed rates expose the Group to fair value interest-rate risk. The Group's borrowings were carried at floating rates and expose the Group to cash flow interest rate risk while a significant part of the Group's structured bank deposits and all of its term deposits with initial terms of over three months were all carried at fixed rates which expose the Group to fair value interest rate risk. The Group has not used any interest rate swaps to hedge its exposure against cash flow interest rate risks. As at 31 December 2012, if interest rate has increased/decreased by 100 basis points with all other variables held constant, profit for the year would have been RMB21.8 million (2011: RMB19.0 million) lower/higher, mainly as a result of increase/decrease in interest expenses on borrowings.

(c) Credit risk

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

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

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

As at 31 December 2011 and 2012, substantially all the bank balances, structured and term deposits with banks as detailed in Notes 25 to 27 are held in major financial institutions located in Hong Kong and the PRC, which management believes are of high credit quality. The Group has a policy to limit the amount of credit exposure to any financial institution and management does not expect any loss arising from non-performance by these counterparties.

As at 31 December 2011 and 2012, the Company provides certain corporate guarantee to its subsidiaries in respect of their banking facilities, details of which have been disclosed in Note 31.

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(d) Liquidity risk

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

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

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

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

	Group			
	Within 1 year	**Between 1 to 5 years**	**Over 5 years**	**Total**
	RMB million	*RMB million*	*RMB million*	*RMB million*
As at 31 December 2012				
Trade payables	**1,153.3**	**—**	**—**	**1,153.3**
Short-term borrowings	**2,178.7**	**—**	**—**	**2,178.7**
Other payables, accruals and other current liabilities	**1,191.0**	**—**	**—**	**1,191.0**
	4,523.0	**—**	**—**	**4,523.0**
As at 31 December 2011				
Trade payables	1,248.3	—	—	1,248.3
Short-term borrowings	1,913.3	—	—	1,913.3
Other payables, accruals and other current liabilities	1,043.5	—	—	1,043.5
	4,205.1	—	—	4,205.1

As at 31 December 2011 and 2012, the Company's financial liabilities are all due for settlement contractually within 12 months. The Company also provides certain corporate guarantee to its subsidiaries in respect of their banking facilities, details of which have been disclosed in Note 31.

3 FINANCIAL RISK MANAGEMENT (continued)

3.2 Fair value estimation

As at 31 December 2011 and 2012, the Group and the Company did not have any significant financial assets or financial liabilities in the balance sheet which is measured at fair value.

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

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

3.3 Capital risk management

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

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

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

As at 31 December 2012, the Group has a net cash position and the aggregate balances of structured bank deposits, term deposits with initial terms of over three months and cash and cash equivalents exceeded the total balance of borrowings by RMB6,349.1 million (2011: RMB4,855.5 million).

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

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

(b) Impairment of non-financial assets

The Group tests annually whether goodwill has suffered any impairment (Note 18). Other non-financial assets including property, plant and equipment, land use rights and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts have been determined based on value-in-use calculations or fair value less costs to sell. These calculations require the use of judgments and estimates.

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

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

(c) Net realizable value of inventories

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

(d) Current and deferred income tax

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

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

5 SEGMENT INFORMATION

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

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

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

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

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

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

5 SEGMENT INFORMATION (continued)

	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 *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	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

5 SEGMENT INFORMATION (continued)

	As at 31 December 2012				
	Shoes and footwear products	Sportswear products	Total reportable segments	Unallocated	Total
	RMB million	*RMB million*	*RMB million*	*RMB million*	*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

5 SEGMENT INFORMATION (continued)

	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

5 SEGMENT INFORMATION (continued)

	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

5 SEGMENT INFORMATION (continued)

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

	Year ended 31 December 2012 RMB million	2011 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

6 OTHER INCOME

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

Note: Government incentives comprised of the subsidies received from various local governments in the PRC.

7 OPERATING PROFIT

Operating profit is stated after charging the following:

	Year ended 31 December 2012 RMB million	2011 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 *(Note 15)*	**815.9**	693.5
Depreciation on investment properties *(Note 17)*	**0.7**	0.7
Amortization of intangible assets *(Note 18)*	**70.0**	53.2
Amortization of land use rights *(Note 16)*	**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) *(Note 13)*	**4,767.2**	3,907.2
Loss on disposal of property, plant and equipment *(Note 34(c))*	**7.4**	4.6
Write-off of property, plant and equipment *(Note 15)*	**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.

8 FINANCE INCOME, NET

	Year ended 31 December 2012 RMB million	2011 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

9 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 *(Note 22)*	**(167.4)**	(188.2)
	1,351.4	1,232.0

Pursuant to the relevant PRC corporate income tax rules and regulations, special income tax rates have been granted to certain subsidiaries of the Company, as being wholly foreign-owned enterprises in Shenzhen, the PRC. These subsidiaries are entitled to a two-year exemption for income taxes followed by 50% reduction in income taxes for the ensuing three years. During the year, except for one of these subsidiaries being subject to a reduced tax rate of 12.5% (its tax rate will be increased to 25% in year 2013), all others are subject to the PRC corporate income tax rate of 25% as the relevant tax reduction periods have expired (2011: certain of these companies were subject to reduced tax rates ranging from 12.5% to 24%, which would be gradually increased to 25% towards year 2013). Hong Kong profits tax and Macau income tax have been provided for at the rate of 16.5% (2011: 16.5%) and at the tax rates prevailing in Macau respectively on the estimated assessable profit for the year.

9 INCOME TAX EXPENSE (continued)

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

	Year ended 31 December	
	2012	2011
	RMB million	*RMB million*
Profit before income tax	**5,676.5**	5,470.5
Tax calculated at the applicable domestic tax rate of respective companies *(note)*	**1,348.2**	1,253.7
Effect of tax holidays of PRC subsidiaries	**(68.4)**	(75.3)
Non-taxable income	**(0.6)**	(10.4)
Expenses not deductible for tax purposes	**21.6**	12.3
Recognition of previously unrecognised tax losses	**(19.3)**	—
Tax losses for which no deferred income tax assets was recognized	**29.4**	33.5
Utilization of previously unrecognized tax losses	**(2.4)**	(22.2)
Over-provision in prior years	**(40.9)**	(22.9)
Withholding tax	**83.8**	63.3
	1,351.4	1,232.0

Note:

The weighted average applicable tax rate for the year ended 31 December 2012 is 23.8% (2011: 22.9%). The fluctuation in the weighted average applicable tax rate arose mainly because of the change in applicable tax rates of certain PRC subsidiaries and the change in the relative profitability of the companies within the Group.

10 PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company for the year ended 31 December 2012 is dealt with in the financial statements of the Company to the extent of RMB1,506.3 million (2011: RMB1,899.6 million).

11 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.

12 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.

13 STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	Year ended 31 December	
	2012	2011
	RMB million	*RMB million*
Wages, salaries and bonuses	**4,012.8**	3,301.6
Pensions costs – defined contribution plans *(note)*	**597.1**	477.8
Welfare and other expenses	**157.3**	127.8
	4,767.2	3,907.2

Note:

The PRC defined contribution plan

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

Hong Kong defined contribution plan

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

Under the MPF Scheme, each of the Group (the employer) and its Hong Kong employees makes monthly contributions to the scheme at 5% of the employees' relevant income, as defined in the Mandatory Provident Fund Scheme Ordinance. Both the Group's and the employee's monthly contributions are subject to a cap of HK$1,000 prior to 1 June 2012 and HK$1,250 thereafter (2011: HK$1,000) and contributions beyond these amounts are voluntary. The contributions are fully and immediately vested upon payment.

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

14 EMOLUMENTS FOR DIRECTORS, CHIEF EXECUTIVE OFFICER, FIVE HIGHEST PAID INDIVIDUALS AND SENIOR MANAGEMENT REMUNERATION BY BAND

(a) Directors' and Chief Executive Officer's emoluments

The remuneration of every Director of the Company and Chief Executive Officer is set out below:

	Fees	Salaries(1)	Bonuses	Employer's contributions to retirement schemes	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2012					
Executive Directors					
Sheng Baijiao (2)	**—**	**3,258**	**4,342**	**7**	**7,607**
Tang King Loy	**—**	**2,211**	**648**	**11**	**2,870**
Sheng Fang (4)	**—**	**1,589**	**1,911**	**33**	**3,533**
Non-executive Directors					
Tang Yiu (3)	**—**	**1,620**	**—**	**—**	**1,620**
Gao Yu	**—**	**—**	**—**	**—**	**—**
Hu Xiaoling	**—**	**—**	**—**	**—**	**—**
Independent Non-executive Directors					
Chan Yu Ling, Abraham	**150**	**—**	**—**	**—**	**150**
Ho Kwok Wah, George	**150**	**—**	**—**	**—**	**150**
Xue Qiuzhi	**150**	**—**	**—**	**—**	**150**
	450	**8,678**	**6,901**	**51**	**16,080**
Year ended 31 December 2011					
Executive Directors					
Tang Yiu (3)	—	3,888	—	—	3,888
Sheng Baijiao (2)	—	3,258	4,342	16	7,616
Tang King Loy	—	2,106	648	10	2,764
Sheng Fang (4)	—	927	1,911	18	2,856
Yu Mingfang (5)	—	524	—	7	531
Non-executive Directors					
Gao Yu	—	—	—	—	—
Hu Xiaoling	—	—	—	—	—
Independent Non-executive Directors					
Chan Yu Ling, Abraham	150	—	—	—	150
Ho Kwok Wah, George	150	—	—	—	150
Xue Qiuzhi	150	—	—	—	150
	450	10,703	6,901	51	18,105

14 EMOLUMENTS FOR DIRECTORS, CHIEF EXECUTIVE OFFICER, FIVE HIGHEST PAID INDIVIDUALS AND SENIOR MANAGEMENT REMUNERATION BY BAND (continued)

(a) Directors' and Chief Executive Officer's emoluments (continued)

(1) Includes basic salaries, housing allowance, other allowances and benefits in kind.

(2) Mr. Sheng Baijiao is also the Chief Executive Officer of the Group.

(3) Retired as an Executive Director and re-elected as a Non-executive Director effective from the conclusion of 2011 annual meeting held on 29 May 2012.

(4) Appointed as an Executive Director effective from 26 May 2011.

(5) Resigned as an Executive Director effective from 24 March 2011.

(b) Five highest paid individuals

The five highest paid individuals included 2 (2011: 3) directors, whose emoluments are included in the above disclosure. The emoluments of the remaining 3 (2011: 2) individuals during the year are as follows:

	Year ended 31 December	
	2012	2011
	RMB million	*RMB million*
Salaries, allowances and benefits in kind	**5,471**	3,672
Bonuses	**5,165**	3,554
Pensions costs – defined contribution plans	**45**	26
	10,681	7,252

	Number of individuals Year ended 31 December	
	2012	2011
HK$3,500,001 (equivalent to RMB2,838,001) to HK$4,000,000 (equivalent to RMB3,243,000)	**1**	—
HK$4,000,001 (equivalent to RMB3,243,001) to HK$4,500,000 (equivalent to RMB3,648,000)	**1**	2
HK$4,500,001 (equivalent to RMB3,648,001) to HK$5,000,000 (equivalent to RMB4,054,000)	**1**	—
	3	2

During the year, no emoluments have been paid to the directors of the Company or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office (2011: Nil).

14 EMOLUMENTS FOR DIRECTORS, CHIEF EXECUTIVE OFFICER, FIVE HIGHEST PAID INDIVIDUALS AND SENIOR MANAGEMENT REMUNERATION BY BAND (continued)

(c) Senior management remuneration by band

The senior management's remuneration by band are as follows:

	Number of individuals Year ended 31 December	
	2012	2011
HK$3,000,001 (equivalent to RMB2,432,001) to HK$3,500,000 (equivalent to RMB2,838,000)	**1**	1
HK$4,000,001 (equivalent to RMB3,243,001) to HK$4,500,000 (equivalent to RMB3,648,000)	**1**	1
	2	2

15 PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings RMB million	Leasehold improvements RMB million	Plant and equipment RMB million	Furniture and fixtures and other equipment RMB million	Motor vehicles RMB million	Construction in progress RMB million	Total RMB million
Cost							
As at 1 January 2011	1,279.9	1,355.8	404.4	320.8	85.6	100.4	3,546.9
Additions	43.8	671.3	79.8	109.7	25.0	295.7	1,225.3
Transfer upon completion	207.5	—	—	—	—	(207.5)	—
Disposals	—	—	(4.2)	(36.9)	(5.1)	—	(46.2)
Written-off	—	(409.8)	—	—	—	—	(409.8)
Exchange differences	(16.6)	(6.6)	(0.8)	(0.8)	(0.1)	—	(24.9)
As at 31 December 2011 and 1 January 2012	**1,514.6**	**1,610.7**	**479.2**	**392.8**	**105.4**	**188.6**	**4,291.3**
Additions	**80.3**	**856.0**	**61.0**	**113.5**	**20.2**	**205.7**	**1,336.7**
Transfer upon completion	**240.1**	**—**	**—**	**—**	**—**	**(240.1)**	**—**
Disposals	**—**	**—**	**(5.7)**	**(31.2)**	**(11.2)**	**—**	**(48.1)**
Written-off	**(2.3)**	**(350.9)**	**(8.4)**	**(5.9)**	**(0.5)**	**—**	**(368.0)**
Exchange differences	**0.1**	**—**	**—**	**—**	**—**	**—**	**0.1**
As at 31 December 2012	**1,832.8**	**2,115.8**	**526.1**	**469.2**	**113.9**	**154.2**	**5,212.0**
Accumulated depreciation							
As at 1 January 2011	139.1	723.7	116.4	168.8	45.2	—	1,193.2
Charge for the year	59.9	492.8	33.5	84.9	22.4	—	693.5
Disposals	—	—	(4.0)	(28.3)	(3.9)	—	(36.2)
Written-off	—	(403.5)	—	—	—	—	(403.5)
Exchange differences	(0.9)	(5.2)	(0.3)	(0.8)	(0.1)	—	(7.3)
As at 31 December 2011 and 1 January 2012	**198.1**	**807.8**	**145.6**	**224.6**	**63.6**	**—**	**1,439.7**
Charge for the year	**58.8**	**621.5**	**45.3**	**78.1**	**12.2**	**—**	**815.9**
Disposals	**—**	**—**	**(2.6)**	**(19.3)**	**(6.8)**	**—**	**(28.7)**
Written-off	**(0.5)**	**(347.3)**	**(8.3)**	**(5.5)**	**(0.5)**	**—**	**(362.1)**
As at 31 December 2012	**256.4**	**1,082.0**	**180.0**	**277.9**	**68.5**	**—**	**1,864.8**
Net book value							
As at 31 December 2012	**1,576.4**	**1,033.8**	**346.1**	**191.3**	**45.4**	**154.2**	**3,347.2**
As at 31 December 2011	1,316.5	802.9	333.6	168.2	41.8	188.6	2,851.6

15 PROPERTY, PLANT AND EQUIPMENT (continued)

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

	As at 31 December	
	2012	2011
	RMB million	*RMB million*
Leasehold land and buildings in Hong Kong held on leases of between 10 and 50 years	**304.0**	312.3
Buildings outside Hong Kong held on leases of between 10 and 50 years	**1,272.4**	1,004.2
	1,576.4	1,316.5

16 LAND USE RIGHTS

	2012	2011
	RMB million	*RMB million*
Cost		
As at 1 January	**906.1**	701.3
Additions	**492.4**	204.8
As at 31 December	**1,398.5**	906.1
Accumulated amortization		
As at 1 January	**88.4**	72.7
Amortization for the year	**19.6**	15.7
As at 31 December	**108.0**	88.4
Net book value as at 31 December	**1,290.5**	817.7

As at 31 December 2011 and 2012, all of the above land use rights of the Group are outside Hong Kong and held on leases of between 10 and 50 years.

17 INVESTMENT PROPERTIES

	2012	2011
	RMB million	*RMB million*
Cost		
As at 1 January	**14.2**	14.2
Transfer from non-current assets held for sale *(Note 28)*	**49.3**	—
Additions	**275.8**	—
As at 31 December	**339.3**	14.2
Accumulated depreciation		
As at 1 January	**3.2**	2.5
Charge for the year	**0.7**	0.7
As at 31 December	**3.9**	3.2
Net book value as at 31 December	**335.4**	11.0

Net book value of investment properties are analyzed as follows:

	As at 31 December	
	2012	2011
	RMB million	*RMB million*
Investment properties in Hong Kong held on leases of between 10 and 50 years	**49.3**	—
Investment properties outside Hong Kong held on leases of between 10 and 50 years	**286.1**	11.0
	335.4	11.0

The valuation of the investment properties (including the related land use rights) as at 31 December 2012 was RMB942.3 million (2011: RMB15.9 million), which was determined by the directors of the Company on an open market value basis.

18 INTANGIBLE ASSETS

	Goodwill *RMB million*	Distribution and license contracts *RMB million*	Trademarks *RMB million*	Computer software *RMB million*	Total *RMB million*
Cost					
As at 1 January 2011	2,137.2	349.6	538.9	24.3	3,050.0
Additions	—	—	0.6	7.7	8.3
Acquisition of subsidiaries *(Note 36)*	58.4	63.5	—	—	121.9
As at 31 December 2011 and 1 January 2012	**2,195.6**	**413.1**	**539.5**	**32.0**	**3,180.2**
Additions	**—**	**—**	**—**	**11.3**	**11.3**
Written-off	**—**	**(27.9)**	**—**	**—**	**(27.9)**
As at 31 December 2012	**2,195.6**	**385.2**	**539.5**	**43.3**	**3,163.6**
Accumulated amortization					
As at 1 January 2011	—	242.6	79.5	14.6	336.7
Amortization for the year	—	29.3	19.2	4.7	53.2
As at 31 December 2011 and 1 January 2012	**—**	**271.9**	**98.7**	**19.3**	**389.9**
Amortization for the year	**—**	**41.6**	**19.2**	**9.2**	**70.0**
Written-off	**—**	**(27.9)**	**—**	**—**	**(27.9)**
As at 31 December 2012	**—**	**285.6**	**117.9**	**28.5**	**432.0**
Net book value					
As at 31 December 2012	**2,195.6**	**99.6**	**421.6**	**14.8**	**2,731.6**
As at 31 December 2011	2,195.6	141.2	440.8	12.7	2,790.3

18 INTANGIBLE ASSETS (continued)

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

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

	Shoes and footwear products *RMB million*	Sportswear products *RMB million*	Total *RMB million*
As at 31 December 2012 and 31 December 2011			
The PRC	**1,638.5**	**485.3**	**2,123.8**
Hong Kong	**71.8**	**—**	**71.8**
	1,710.3	**485.3**	**2,195.6**

For the purposes of impairment review, the recoverable amount of goodwill is determined based on value-in-use calculations. The value-in-use calculations use cash flow projections based on financial budgets approved by management for the purposes of impairment reviews covering a five-year period. Cash flows beyond the five-year period are extrapolated using an estimated annual growth of not more than 2%. The growth rates used do not exceed the industry growth forecast for the market in which the Group operates.

Key assumptions used for value-in-use calculations:

	Shoes and footwear products		Sportswear products
	The PRC	**Hong Kong**	**The PRC**
Gross margin	20% – 64%	70% – 77%	37%
Annual growth rate of approved financial budgets	18% – 35%	(14%) – 19%	10% – 15%

The discount rate used of 14.8% is pre-tax and reflects market assessments of the time value and the specific risks relating to the industry. The budgeted gross margin was determined by the management based on past performance and its expectation for market development. Management believes that any reasonably foreseeable change in any of the above key assumptions would not cause the carrying amount of goodwill to exceed the recoverable amount.

19 INTERESTS IN SUBSIDIARIES – THE COMPANY

	As at 31 December	
	2012	2011
	RMB million	*RMB million*
Unlisted equity investments, at cost	**4,333.5**	4,333.4
Loans to subsidiaries *(note (a))*	**6,559.4**	6,454.8
	10,892.9	10,788.2
Amounts due from subsidiaries *(note (b))*	**3,344.1**	3,629.5
Amounts due to subsidiaries *(note (b))*	**2,333.2**	2,668.8

Notes:

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

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

(c) Particulars of the principal subsidiaries of the Company are set out in Note 40.

20 INTERESTS IN ASSOCIATES AND JOINTLY CONTROLLED ENTITIES

	2012	2011
	RMB million	*RMB million*
At 1 January	**61.6**	—
Capital contribution during the year	**37.8**	61.2
Share of profits	**4.9**	0.4
	104.3	61.6
Loan to a jointly controlled entity *(note)*	**5.0**	—
At 31 December	**109.3**	61.6

Note: Loan to a jointly controlled entity is unsecured, non-interest bearing and with no fixed terms of repayment.

20 INTERESTS IN ASSOCIATES AND JOINTLY CONTROLLED ENTITIES (continued)

Summarized financial information in respect of the Group's associate and jointly controlled entity is set out below:

	2012	2011
	RMB million	*RMB million*
As at 31 December		
Total assets	**370.5**	275.8
Total liabilities	**(111.2)**	(113.8)
For the year ended 31 December		
Total revenue	**375.3**	112.2
Total profit	**13.7**	1.0
Share of profit	**4.9**	0.4

Particulars of the associate and jointly controlled entity of the Group are set out in Note 40.

21 DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	Group		**Company**	
	As at 31 December		**As at 31 December**	
	2012	2011	**2012**	2011
	RMB million	*RMB million*	***RMB million***	*RMB million*
Non-current:				
Rental deposits and prepayments	**255.1**	273.1	**—**	—
Prepayments for capital expenditures	**82.9**	678.7	**—**	—
Prepayments for acquisition of subsidiaries *(Note 39)*	**264.0**	—	**—**	—
Others	**1.5**	11.0	**—**	—
	603.5	962.8	**—**	—
Current:				
Rental deposits and prepayments	**567.7**	529.9	**—**	—
Value-added tax recoverables	**176.9**	569.3	**—**	—
Other receivables	**211.9**	233.2	**—**	—
Other prepayments	**38.4**	369.6	**0.5**	0.6
Advance to an associate *(Note 38)*	**32.4**	51.4	**—**	—
	1,027.3	1,753.4	**0.5**	0.6

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

22 DEFERRED INCOME TAXES

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

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

	As at 31 December	
	2012	2011
	RMB million	*RMB million*
Net deferred income tax assets recognized on the balance sheet	**465.6**	370.1
Net deferred income tax liabilities recognized on the balance sheet	**(110.9)**	(182.8)
	354.7	187.3

The movements in the deferred income tax assets/(liabilities) account are as follows:

	Accelerated tax depreciation	**Unrealized profit and impairment losses on closing inventories**	**Distribution and license contracts**	**Trademarks**	**Tax losses**	**Others**	**Total**
	RMB million	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*
At 1 January 2011	(0.6)	176.9	(7.4)	(108.7)	14.7	(59.9)	15.0
Acquisition of subsidiaries *(Note 36)*	—	—	(15.9)	—	—	—	(15.9)
Credited/(charged) to the income statement *(Note 9)*	—	182.0	4.9	4.8	(3.5)	—	188.2
At 31 December 2011 and 1 January 2012	**(0.6)**	**358.9**	**(18.4)**	**(103.9)**	**11.2**	**(59.9)**	**187.3**
Credited to the income statement *(Note 9)*	**—**	**29.2**	**8.7**	**3.6**	**66.3**	**59.6**	**167.4**
At 31 December 2012	**(0.6)**	**388.1**	**(9.7)**	**(100.3)**	**77.5**	**(0.3)**	**354.7**

Deferred income tax assets are recognized for tax losses carried forward to the extent that the realization of the related tax benefit through future taxable profits is probable. At 31 December 2012, the Group had unrecognized tax losses to be carried forward against future taxable income amounted to RMB375.3 million (2011: RMB478.3 million).

22 DEFERRED INCOME TAXES (continued)

The expiry of unrecognized tax losses are as follows:

	As at 31 December	
	2012	2011
	RMB million	*RMB million*
Tax losses without expiry date	**98.8**	109.0
Tax losses expiring after 5 years	**103.9**	103.9
Tax losses expiring in 5 years	**172.6**	265.4
	375.3	478.3

As at 31 December 2012, the potential deferred income tax assets in respect of the above unrecognized tax losses amounted to RMB94.7 million (2011: RMB114.6 million).

Pursuant to the relevant PRC corporate income tax rules and regulations, withholding tax is imposed on dividends declared in respect of profits earned by the Company's PRC subsidiaries from 1 January 2008. Deferred income tax liabilities of approximately RMB627.1 million (2011: approximately RMB389.0 million) have not been provided for in these consolidated financial statements in respect of temporary differences attributable to undistributed profits of the Group's PRC subsidiaries as the Group controls the dividend policy of these PRC subsidiaries and it is probable that these temporary differences will not reverse in the foreseeable future.

23 INVENTORIES

	As at 31 December	
	2012	2011
	RMB million	*RMB million*
Raw materials	**225.6**	279.9
Work in progress	**71.9**	56.4
Finished goods	**6,802.0**	6,242.4
Consumables	**2.8**	2.6
	7,102.3	6,581.3
Less: provision for impairment losses	**(69.6)**	(64.7)
	7,032.7	6,516.6

24 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.

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

	As at 31 December	
	2012	2011
	RMB million	*RMB million*
RMB	**3,089.3**	2,707.4
HK$	**45.0**	38.5
	3,134.3	2,745.9

As at 31 December 2012, trade receivables of RMB3,098.0 million (2011: RMB2,715.6 million) were neither past due nor impaired. The credit quality of these trade receivables has been assessed with reference to historical information about the counterparty default rates. The existing counterparties do not have defaults in the past.

24 TRADE RECEIVABLES (continued)

As at 31 December 2012, trade receivables of RMB36.3 million (2011: RMB30.3 million) were past due but for which no impairment loss has been provided by the Group. These trade receivables relate to a number of independent debtors for whom there is no recent history of default. The Group does not hold any collateral as security over these debtors. The ageing analysis of the trade receivables which are past due but not impaired is as follows:

	As at 31 December	
	2012	2011
	RMB million	*RMB million*
61 to 90 days	**26.5**	14.8
91 to 150 days	**9.8**	15.5
	36.3	30.3

During the years ended 31 December 2011 and 2012, no trade receivables were impaired and written off. No trade receivables are considered to be impaired as at 31 December 2011 and 2012.

25 STRUCTURED BANK DEPOSITS

All of the Group's structured bank deposits were placed with major state-owned banks in the PRC with fixed maturity and fixed interest rate or fixed plus floating interest rates.

As at 31 December 2012, approximately 72% (2011: 76%) of the Group's structured bank deposits will mature within 6 months. The weighted average effective interest rate of the Group's structured bank deposits as at 31 December 2012 was 5.59% (2011: 4.51%) per annum. These balances are denominated in RMB.

26 TERM DEPOSITS WITH INITIAL TERMS OF OVER THREE MONTHS

The weighted average effective interest rate of the Group's term deposits with initial terms of over three months as at 31 December 2012 was 3.95% (2011: 2.63%) per annum. These balances are denominated in RMB.

27 CASH AND CASH EQUIVALENTS

	Group		Company	
	As at 31 December		As at 31 December	
	2012	2011	**2012**	2011
	RMB million	*RMB million*	***RMB million***	*RMB million*
Cash and bank balances	**1,536.7**	2,881.8	**2.0**	1.7
Term deposits with initial terms of less than three months	**750.2**	5.0	**—**	—
	2,286.9	2,886.8	**2.0**	1.7
Denominated in:				
RMB	**2,014.1**	2,548.1	**—**	—
HK$	**179.4**	291.2	**2.0**	1.7
Other currencies	**93.4**	47.5	**—**	—
	2,286.9	2,886.8	**2.0**	1.7

As at 31 December 2012, the weighted average effective interest rate of the Group's term deposits with initial terms of less than three months was 1.81% (2011: 1.49%) per annum.

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

28 NON-CURRENT ASSETS HELD FOR SALE

Movements of the non-current assets held for sale are as follows:

	2012	2011
	RMB million	*RMB million*
As at 1 January	**49.3**	51.8
Transfer to investment properties *(Note 17)*	**(49.3)**	—
Exchange differences	**—**	(2.5)
As at 31 December	**—**	49.3

29 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.

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

	As at 31 December	
	2012	2011
	RMB million	*RMB million*
RMB	**1,119.5**	1,216.2
HK$	**11.5**	11.2
Other currencies	**22.3**	20.9
	1,153.3	1,248.3

30 OTHER PAYABLES, ACCRUALS AND OTHER CURRENT LIABILITIES

	Group		Company	
	As at 31 December		As at 31 December	
	2012	2011	**2012**	2011
	RMB million	*RMB million*	***RMB million***	*RMB million*
Accrued wages, salaries, bonus and staff welfare	**573.9**	514.5	**—**	—
Value-added tax, business tax and other taxes payables	**365.7**	269.5	**—**	—
Customers' deposits	**266.6**	281.3	**—**	—
Other accrued expenses and payables	**251.4**	259.5	**1.6**	3.4
	1,457.6	1,324.8	**1.6**	3.4

31 SHORT-TERM BORROWINGS

(a) 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.

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

	As at 31 December	
	2012	2011
	RMB million	*RMB million*
Cross guarantees among subsidiaries of the Company	**2,782.4**	2,100.8
Guaranteed by the Company	**3,829.2**	2,679.6
Corresponding banking facilities utilized	**2,261.9**	2,088.4

32 SHARE CAPITAL AND SHARE PREMIUM

Share capital – Group and Company

	Ordinary shares of HK$0.01 each	**Nominal amount**
	Number of shares	***RMB million***
Authorized:		
As at 1 January 2011, 31 December 2011 and 31 December 2012	**30,000,000,000**	**296.0**
Issued and fully paid:		
As at 1 January 2011, 31 December 2011 and 31 December 2012	**8,434,233,000**	**83.1**

Share premium – Company

	RMB million
As at 1 January 2011, 31 December 2011 and 31 December 2012	**9,331.9**

32 SHARE CAPITAL AND SHARE PREMIUM (continued)

Share premium – Company (continued)

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

Share option scheme

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

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

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

No options have been granted under the share option scheme by the Group since its adoption and up to 31 December 2012.

33 RESERVES

Group

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

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

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

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

Company

	Capital redemption reserve *RMB million*	**Retained earnings** *RMB million*	**Total** *RMB million*
As at 1 January 2011	0.1	2,373.0	2,373.1
Profit for the year	—	1,899.6	1,899.6
Dividends paid	—	(1,939.9)	(1,939.9)
As at 31 December 2011 and 1 January 2012	**0.1**	**2,332.7**	**2,332.8**
Profit for the year	**—**	**1,506.3**	**1,506.3**
Dividends paid	**—**	**(1,349.4)**	**(1,349.4)**
As at 31 December 2012	**0.1**	**2,489.6**	**2,489.7**

34 CONSOLIDATED STATEMENT OF CASH FLOWS

(a) 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

34 CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

(b) In the statement of cash flows, payments and deposits for purchase of property, plant and equipment, land use rights, investment properties and intangible assets are analyzed as follows:

	Year ended 31 December	
	2012	2011
	RMB million	*RMB million*
Additions to:		
Property, plant and equipment	**1,336.7**	1,225.3
Land use rights	**492.4**	204.8
Investment properties	**275.8**	—
Intangible assets	**11.3**	8.3
(Decrease)/increase in prepayments	**(595.8)**	259.0
	1,520.4	1,697.4

(c) In the statement of cash flows, proceeds from sale of property, plant and equipment comprise:

	Year ended 31 December	
	2012	2011
	RMB million	*RMB million*
Net book value	**19.4**	10.0
Loss on disposal	**(7.4)**	(4.6)
Proceeds from sale	**12.0**	5.4

35 COMMITMENTS

(a) Capital commitments

As at 31 December 2012, the Group had the following capital commitments not provided for:

	As at 31 December	
	2012	2011
	RMB million	*RMB million*
Purchase of a property in the PRC:		
– Contracted but not provided for	**—**	197.0
Purchase of a land in the PRC:		
– Contracted but not provided for	**152.4**	—
Construction commitments:		
– Authorized but not contracted	**—**	18.2
– Contracted but not provided for	**419.7**	68.2
	419.7	86.4
Acquisition of subsidiaries:		
– Contracted but not provided for *(Note 39)*	**616.0**	—

(b) Operating lease commitments

As at 31 December 2012, the future aggregate minimum lease payments in respect of land and buildings under non-cancellable operating leases were as follows:

	As at 31 December	
	2012	2011
	RMB million	*RMB million*
Not later than 1 year	**643.7**	860.5
Later than 1 year and not later than 5 years	**843.7**	676.8
Later than 5 years	**222.4**	222.0
	1,709.8	1,759.3

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

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

The Company did not have any other significant commitments at 31 December 2012 (2011: Nil).

36 ACQUISITION OF SUBSIDIARIES IN 2011

On 1 July 2011, the Group completed the acquisition and investment of 60% equity interests in Best Sail International Holdings Limited ("Best Sail"). Best Sail and its subsidiaries are principally engaged in the sales of children's footwear in the PRC. As a result of the acquisition, the Group is expected to target the children market segment. The goodwill of RMB58.4 million arising from the acquisition was attributable to specific skills and resources acquired.

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

	RMB million
Cash consideration at 1 July 2011	87.0
Recognized amounts of identifiable assets acquired and liabilities assumed	
Distribution and license contracts (included in intangible assets) *(Note 18)*	63.5
Deferred income tax liabilities *(Note 22)*	(15.9)
Total identifiable net assets	47.6
Non-controlling interests	(19.0)
Goodwill *(Note 18)*	58.4
	87.0

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

37 FUTURE MINIMUM RENTAL PAYMENTS RECEIVABLE

As at 31 December 2012, the future aggregate minimum rental payments receivable in respect of land and buildings under non-cancellable operating leases were as follows:

	As at 31 December	
	2012	2011
	RMB million	*RMB million*
Not later than 1 year	**63.6**	19.1
Later than 1 year and not later than 5 years	**81.1**	3.4
	144.7	22.5

38 RELATED PARTY TRANSACTIONS

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

Transactions for the year

	Year ended 31 December	
	2012	2011
	RMB million	*RMB million*
Transactions with an associate *(note a)*		
– Sale of goods	**3.2**	—
– Processing fee income received	**75.3**	27.2
– Processing fee paid	**2.9**	—
– Purchases of goods	**81.1**	5.5
Key management compensation		
– salaries, bonuses and other welfare *(note b)*	**26.7**	29.1

Year-end balances

	As at 31 December	
	2012	2011
	RMB million	*RMB million*
Receivables from/(payables to) an associate		
– Trade receivables *(note c)*	**0.6**	31.8
– Other receivables *(note d)*	**32.4**	51.4
– Trade payables *(note c)*	**(11.4)**	(1.5)
Loan to a jointly controlled entity *(Note 20)*	**5.0**	—

Notes:

(a) Processing fee income and purchases of goods from the associate, and sales of goods and processing fee to the associate are on normal commercial terms and conditions.

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

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

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

39 SUBSEQUENT EVENTS

On 20 March 2012, Synergy Eagle Limited (the "Buyer"), a wholly-owned subsidiary of the Company, and an independent third party (the "Seller") entered into a share purchase agreement (the "Agreement") pursuant to which the Seller has agreed to sell to the Buyer the entire equity interests in Big Step Limited ("Big Step") ("Acquisition").

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

The Acquisition was completed on 1 March 2013 and the total consideration of RMB880.0 million is to be settled in cash. Up to 31 December 2012, the Group has paid RMB264.0 million to the Seller according to the Agreement and this amount has been included in the "Long-term deposits and prepayments".

Due to the timing of the completion of the Acquisition, the Group is yet to obtain all necessary information and records, accordingly, certain disclosures in relation to the business combination as at the date of completion such as the fair value of net assets acquired and acquisition-related transaction costs have not been presented.

40 PARTICULARS OF PRINCIPAL SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITIES

At 31 December 2012, the Company had the following principal subsidiaries:

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

40 PARTICULARS OF PRINCIPAL SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITIES (continued)

Name	Issued/ paid-in capital	Interest held	Place of incorporation/ establishment	Principal activities/ place of operation
Indirectly held:				
Belle Footwear (Hong Kong) Company Limited	20,000,000 shares of HK$1 each	100%	Hong Kong	Trading of shoes and footwear products/ Hong Kong
Belle Worldwide Limited	3 shares of HK$1 each	100%	Hong Kong	Property holdings and provision of administration services/ Hong Kong
Full State Corporation Limited	10,000,000 shares of HK$1 each	100%	Hong Kong	Investment holdings and trading of shoes and footwear products/ Hong Kong
Millie's Company Limited	1,000,000 shares of HK$10 each	100%	Hong Kong	Trading of shoes and footwear products/ Hong Kong
Mirabell Footwear Limited	2 shares of HK$100 each	100%	Hong Kong	Trademark holdings/ Hong Kong
Shoesnet Co Limited	10,000 shares of HK$1 each	100%	Hong Kong	Property holdings/the PRC
Staccato Footwear Co Limited	300,000 shares of HK$1 each	100%	Hong Kong	Trademark holdings/ Hong Kong
Yitian Network Limited	10,000,000 shares of HK$1 each	77.5%	Hong Kong	Investment holdings/ Hong Kong
Artigiano Footwear Limited	30,000 shares of MOP1 each	100%	Macau	Trading of shoes and footwear products/ Macau
Bestwell (Macao Commercial Offshore) Company Limited	100,000 shares of MOP1 each	100%	Macau	Trading of shoes and footwear products/ Macau
Staccato Footwear (Macau) Company Limited	25,000 shares of MOP1 each	100%	Macau	Trading of shoes and footwear products/ Macau
Best Sail International Holdings Limited	4,000 shares of HK$1 each	60%	Cayman Islands	Investment holdings/ Hong Kong
Sky Sino Limited	20,000 shares of US$1 each	77.5%	Cayman Islands	Investment holdings/ Hong Kong

40 PARTICULARS OF PRINCIPAL SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITIES (continued)

Name	Issued/ paid-in capital	Interest held	Place of incorporation/ establishment	Principal activities/ place of operation
Indirectly held: (continued)				
Belle (IP) Limited	100 shares of US$1 each	100%	Mauritius	Trademark holdings/ Macau
Staccato (IP) Limited	100 shares of US$1 each	100%	Mauritius	Trademark holdings/ Macau
合眾服飾（深圳）有限公司 (Hezhong Apparel (Shenzhen) Limited) #	US$10,000,000	100%	The PRC	Manufacturing and trading of shoes, footwear products and apparel/the PRC
廣州市滔搏體育發展有限公司 (Guangzhou Taobo Sports Development Company Limited) #	US$25,000,000	100%	The PRC	Operation of sports complex business/ the PRC
滔搏投資（上海）有限公司 (Taobo Investments (Shanghai) Company Limited)#	US$30,000,000	100%	The PRC	Trading of sporting shoes and apparel/the PRC
滔搏商貿（沈陽）有限公司 (Taobo Trading (Shenyang) Company Limited) #	US$5,000,000	100%	The PRC	Operation of sports complex business/ the PRC
百朗商貿（深圳）有限公司 (Bailang Trading (Shenzhen) Company Limited) #	US$5,000,000	100%	The PRC	Trading of sporting shoes and apparel/ the PRC
北京崇德商貿有限公司 (Beijing Chongde Trading Company Limited) #	US$12,000,000	100%	The PRC	Trading of sporting shoes and apparel/ the PRC
百麗國際鞋業（青島）有限公司 (Belle International Footwear (Qingdao) Company Limited) @	RMB70,000,000	100%	The PRC	Trading of shoes, footwear products, sporting shoes and apparel/the PRC
百麗鞋業（上海）有限公司 (Belle Footwear (Shanghai) Company Limited) #	US$30,000,000	100%	The PRC	Trading of shoes, footwear products, sporting shoes and apparel/the PRC

40 PARTICULARS OF PRINCIPAL SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITIES (continued)

Name	Issued/ paid-in capital	Interest held	Place of incorporation/ establishment	Principal activities/ place of operation
Indirectly held: (continued)				
百麗鞋業(北京)有限公司 (Belle Footwear (Beijing) Company Limited) #	US$5,100,000	100%	The PRC	Trading of shoes, footwear products, sporting shoes and apparel/the PRC
百麗鞋業(宿州)有限公司 (Belle Footwear (Suzhou) Company Limited) #	US$28,000,000	100%	The PRC	Manufacturing and trading of shoes and footwear products/ the PRC
銅仁百麗鞋業有限公司 (Tongren Belle Footwear Company Limited) #	RMB30,000,000	100%	The PRC	Manufacturing and trading of shoes, footwear products and apparel/the PRC
滔搏體育(上海)有限公司 (Taobo Sports (Shanghai) Company Limited) #	US$12,000,000	100%	The PRC	Trading of sporting shoes and apparel/ the PRC
麗港鞋業(深圳)有限公司 (Lai Kong Footwear (Shenzhen) Company Limited) #	US$8,771,368	100%	The PRC	Manufacturing and trading of shoes and footwear products/ the PRC
麗珂貿易(沈陽)有限公司 (Li'ke Trading (Shenyang) Company Limited) #	US$32,000,000	100%	The PRC	Trading of sporting shoes and apparel/ the PRC
新百麗鞋業(深圳)有限公司 (New Belle Footwear (Shenzhen) Company Limited) #	US$130,000,000	100%	The PRC	Manufacturing and trading of shoes and footwear products/ the PRC
青島傳承國際貿易有限公司 (Qingdao Chuancheng International Trading Company Limited) #	US$32,000,000	100%	The PRC	Trading of sporting shoes and apparel/ the PRC
陝西滔搏體育商貿有限公司 (Shanxi Taobo Sports Trading Company Limited) @	RMB240,000,000	100%	The PRC	Trading of sporting shoes and apparel/ the PRC

40 PARTICULARS OF PRINCIPAL SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITIES (continued)

Name	Issued/ paid-in capital	Interest held	Place of incorporation/ establishment	Principal activities/ place of operation
Indirectly held: (continued)				
深圳市滔搏商貿有限公司 (Shenzhen Taobo Trading Company Limited) @	RMB180,000,000	100%	The PRC	Trading of sporting shoes and apparel/ the PRC
成都滔搏商貿有限公司 (Chengdu Taobo Trading Company Limited) @	RMB242,000,000	100%	The PRC	Trading of sporting shoes and apparel/ the PRC
武漢滔搏商貿有限公司 (Wuhan Taobo Trading Company Limited) #	US$32,000,000	100%	The PRC	Trading of sporting shoes and apparel/ the PRC
雲南立銳體育用品有限公司 (Yunnan Lirui Sports Company Limited) @	RMB220,750,000	100%	The PRC	Trading of sporting shoes and apparel/ the PRC
江蘇森達鞋業有限公司 (Jiangsu Senda Footwear Company Limited) @	RMB294,250,000	100%	The PRC	Manufacturing and trading of shoes and footwear products/ the PRC
上海新百思圖鞋業有限公司 (Shanghai New Basto Footwear Company Limited) @	RMB50,000,000	100%	The PRC	Manufacturing and trading of shoes and footwear products/ the PRC
湖北秭歸百麗鞋業有限責任公司 (Hubei Zigui Belle Footwear Company Limited) @	RMB31,000,000	100%	The PRC	Manufacturing of shoes and footwear products/ the PRC
深圳百麗商貿有限公司 (Shenzhen Belle Trading Company Limited) @	RMB20,000,000	100%	The PRC	Trading of shoes and footwear products/ the PRC
百麗鞋業(沈陽)商貿有限公司 (Belle Footwear (Shenyang) Trading Company Limited) @	RMB200,000,000	100%	The PRC	Trading of shoes and footwear products/ the PRC

40 PARTICULARS OF PRINCIPAL SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITIES (continued)

Name	Issued/ paid-in capital	Interest held	Place of incorporation/ establishment	Principal activities/ place of operation
Indirectly held: (continued)				
百麗鞋業(武漢)有限公司 (Belle Footwear (Wuhan) Company Limited) #	US$10,000,000	100%	The PRC	Trading of shoes and footwear products/ the PRC
百麗鞋業(成都)有限公司 (Belle Footwear (Chengdu) Company Limited) #	US$20,000,000	100%	The PRC	Trading of shoes and footwear products/ the PRC
陝西百麗鞋業有限公司 (Shanxi Belle Footwear Company Limited) @	RMB20,000,000	100%	The PRC	Trading of shoes and footwear products/ the PRC
新疆百麗鞋業有限公司 (Xinjiang Belle Footwear Company Limited) @	RMB10,000,000	100%	The PRC	Trading of shoes and footwear product/ the PRC
雲南百麗鞋業有限公司 (Yunnan Belle Footwear Company Limited) @	RMB20,000,000	100%	The PRC	Trading of shoes and footwear products/ the PRC
廣州市百麗鞋業有限公司 (Guangzhou Belle Footwear Company Limited) @	RMB20,000,000	100%	The PRC	Trading of shoes and footwear products/ the PRC
河南頤和國際商貿有限公司 (Henan Yihe International Trading Company Limited) #	US$1,000,000	100%	The PRC	Operation of sports complex business/ the PRC
雲南法迅貿易有限公司 (Yunnan Faxun Trading Company Limited) #	US$2,600,000	100%	The PRC	Operation of sports complex business/ the PRC
廣億貿易(上海)有限公司 (Grand Billion Trading (Shanghai) Company Limited) #	US$9,800,000	60%	The PRC	Trading of shoes and footwear products/ the PRC

40 PARTICULARS OF PRINCIPAL SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITIES (continued)

Name	Issued/ paid-in capital	Interest held	Place of incorporation/ establishment	Principal activities/ place of operation
Indirectly held: (continued)				
廣州億僮貿易有限公司 (Guangzhou Yitong Trading Company Limited) @	RMB10,000,000	60%	The PRC	Trading of shoes and footwear products/ the PRC
優購科技有限公司 (Yougou Technology Company Limited) #	US$55,000,000	77.5%	The PRC	Operation of e-Commerce business/ the PRC

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

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

At 31 December 2012, the Group had the following associate and jointly controlled entity:

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

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

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