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Interim Report 2014

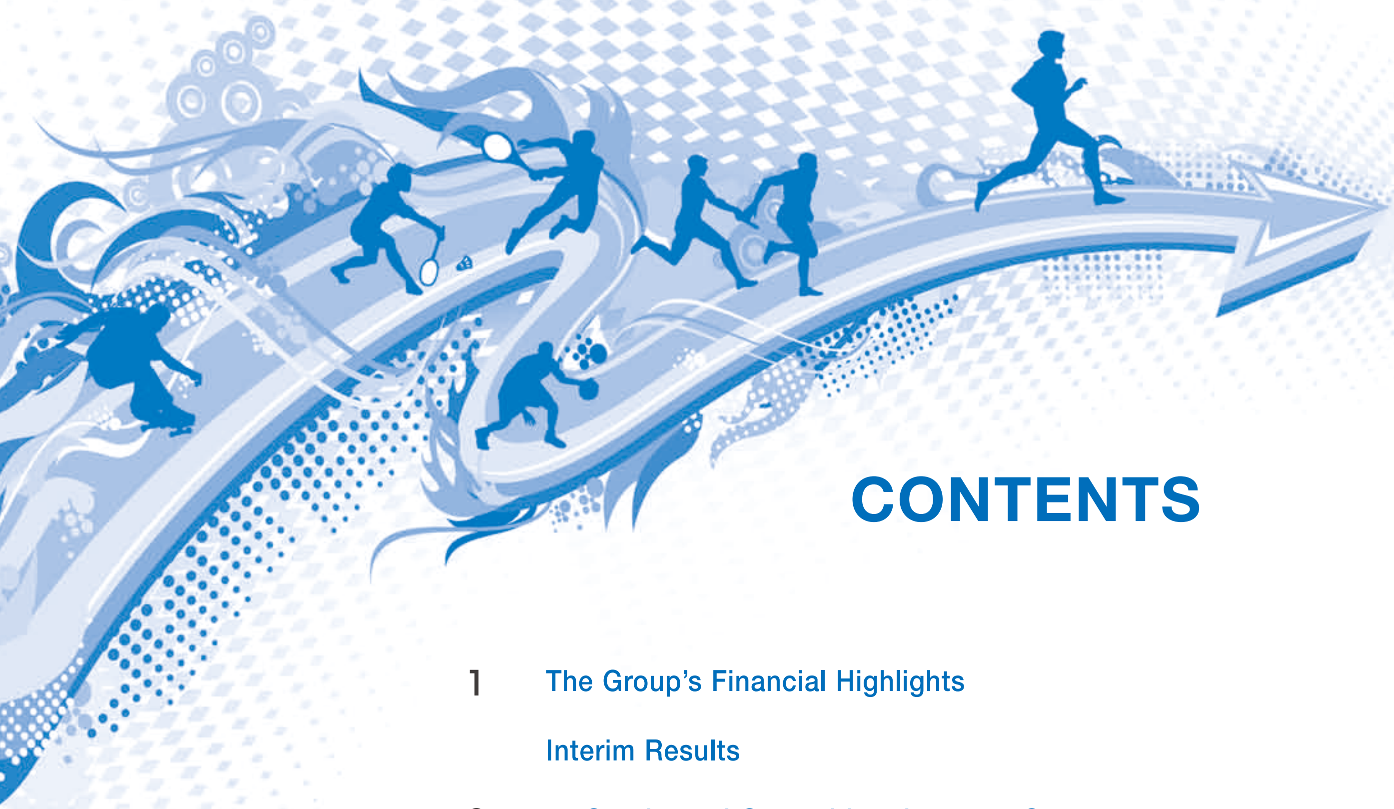
PROFESSIONALISM · DEDICATION · INNOVATION · SERVICE

POU SHENG INTERNATIONAL (HOLDINGS) LIMITED

寶勝國際（控股）有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code：3813)



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THE GROUP'S FINANCIAL HIGHLIGHTS

	For the six months ended June 30, 2014	2013	Percentage increase
Revenue *(US$'000)*	**966,593**	886,245	**9.1%**
Operating profit *(US$'000)*	**15,846**	7,646	**107.2%**
Loss attributable to owners of the Company *(US$'000)*	**(1,842)**	(16,582)	**88.9%**
Basic loss per share *(US cent)*	**(0.03)**	(0.31)	**90.3%**

INTERIM RESULTS

RESULTS

The board (the "Board") of directors (the "Director") of Pou Sheng International (Holdings) Limited (the "Company") are pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended June 30, 2014 with comparative figures for the corresponding period in 2013 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended June 30, 2014

	NOTES	For the six months ended June 30, 2014 US$'000 (unaudited)	2013 US$'000 (unaudited)
Revenue	3	**966,593**	886,245
Cost of sales		**(678,712)**	(636,877)
Gross profit		**287,881**	249,368
Other operating income and gains (losses)		**5,971**	11,366
Selling and distribution expenses		**(235,752)**	(220,436)
Administrative expenses		**(42,254)**	(32,652)
Operating profit		**15,846**	7,646
Finance costs		**(5,330)**	(8,026)
Finance income		**1,395**	1,104
Finance costs – net		**(3,935)**	(6,922)
Share of results of associates		**(516)**	(192)
Share of results of joint ventures		**(1,265)**	(3,339)
Other gains (losses)		**(2,442)**	(2,523)
Profit (loss) before taxation		**7,688**	(5,330)
Income tax expense	4	**(10,281)**	(10,233)
Loss for the period	5	**(2,593)**	(15,563)
Attributable to:			
Owners of the Company		**(1,842)**	(16,582)
Non-controlling interests		**(751)**	1,019
		(2,593)	(15,563)
Loss per share	7		
– Basic		**US(0.03) cent**	US(0.31) cent
– Diluted		**US(0.03) cent**	US(0.31) cent

INTERIM RESULTS

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended June 30, 2014

	For the six months ended June 30,	
	2014	2013
	US$'000	US$'000
	(unaudited)	(unaudited)
Loss for the period	**(2,593)**	(15,563)
Other comprehensive (expense) income		
An item that will not be reclassified subsequently to profit or loss		
Exchange difference arising on translation	**(20,273)**	7,794
Total comprehensive expense for the period	**(22,866)**	(7,769)
Attributable to:		
Owners of the Company	**(21,790)**	(8,690)
Non-controlling interests	**(1,076)**	921
	(22,866)	(7,769)

INTERIM RESULTS

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At June 30, 2014

	NOTES	At June 30, 2014 US$'000 (unaudited)	At December 31, 2013 US$'000 (audited)
Non-current assets			
Property, plant and equipment	8	**89,634**	95,697
Deposit paid for acquisition of property, plant and equipment		**553**	383
Prepaid lease payments		**23,560**	24,476
Rental deposits and prepayments		**17,362**	19,729
Intangible assets	8	**117,454**	118,201
Goodwill		**82,977**	82,977
Interest in an associate		**1,935**	2,550
Interests in joint ventures		**11,892**	13,561
Loans to joint ventures		**19,586**	23,063
Deposit paid for acquisition of the remaining interest in a subsidiary		**1,609**	–
Long-term loan receivables		**8,047**	8,246
Deferred tax assets		**1,247**	2,932
		375,856	391,815
Current assets			
Inventories		**539,085**	631,595
Trade and other receivables	9	**330,795**	349,439
Taxation recoverable		**160**	1,323
Structured bank deposit		**9,730**	2,144
Bank balances and cash		**83,972**	61,424
		963,742	1,045,925
Assets classified as held for sale		**-**	22,067
		963,742	1,067,992

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

At June 30, 2014

	NOTES	At June 30, 2014 US$'000 (unaudited)	At December 31, 2013 US$'000 (audited)
Current liabilities			
Trade and other payables	10	**197,219**	221,949
Taxation payable		**6,019**	5,173
Bank overdrafts		**-**	20,220
Bank borrowings		**214,012**	197,382
		417,250	444,724
Liabilities associated with assets classified as held for sale		**-**	16,850
		417,250	461,574
Net current assets		**546,492**	606,418
Total assets less current liabilities		**922,348**	998,233
Non-current liabilities			
Bank borrowings		**-**	50,000
Consideration payable for acquisition of business		**17,461**	18,016
Deferred tax liabilities		**32,415**	33,285
		49,876	101,301
Net assets		**872,472**	896,932
Capital and reserves			
Share capital	11	**6,909**	6,909
Reserves		**851,019**	874,005
Equity attributable to owners of the Company		**857,928**	880,914
Non-controlling interests		**14,544**	16,018
Total equity		**872,472**	896,932

INTERIM RESULTS

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended June 30, 2014

	Equity attributable to owners of the Company												
	Share capital US$'000	Share premium US$'000	Special reserve US$'000 (note (i))	Other reserve US$'000 (note (ii))	Revaluation reserve US$'000 (note (iii))	Shares held for share award scheme US$'000	Share-based compensation reserve US$'000	Non-distributable reserve US$'000 (note (iv))	Translation reserve US$'000	Accumulated profits US$'000	Total US$'000	Non-controlling interests US$'000	Total US$'000
At January 1, 2013 (audited)	6,850	755,014	96,269	(210,594)	8,108	-	6,063	28,744	101,031	110,238	901,723	16,349	918,072
Exchange difference arising on translation of financial statements	-	-	-	-	-	-	-	-	7,892	-	7,892	(98)	7,794
(Loss) profit for the period	-	-	-	-	-	-	-	-	-	(16,582)	(16,582)	1,019	(15,563)
Total comprehensive income (expense) for the period	-	-	-	-	-	-	-	-	7,892	(16,582)	(8,690)	921	(7,769)
Recognition of equity-settled share-based payments, net of amount forfeited relating to share options not yet vested	-	-	-	-	-	-	(604)	-	-	596	(8)	-	(8)
Realised on deregistration of subsidiaries	-	-	-	-	-	-	-	-	(171)	171	-	-	-
Transfer	-	-	-	-	-	-	-	1,229	-	(1,229)	-	-	-
At June 30, 2013 (unaudited)	6,850	755,014	96,269	(210,594)	8,108	-	5,459	29,973	108,752	93,194	893,025	17,270	910,295
At January 1, 2014 (audited)	6,909	758,792	96,269	(215,523)	8,108	-	5,218	32,423	118,251	70,467	880,914	16,018	896,932
Exchange difference arising on translation of financial statements	-	-	-	-	-	-	-	-	(19,948)	-	(19,948)	(325)	(20,273)
Loss for the period	-	-	-	-	-	-	-	-	-	(1,842)	(1,842)	(751)	(2,593)
Total comprehensive expense for the period	-	-	-	-	-	-	-	-	(19,948)	(1,842)	(21,790)	(1,076)	(22,866)
Purchase of shares under share award scheme	-	-	-	-	-	(1,168)	-	-	-	-	(1,168)	-	(1,168)
Recognition of equity-settled share-based payments, net of amount forfeited relating to share options not yet vested	-	-	-	-	-	-	(28)	-	-	-	(28)	-	(28)
Realised on disposal of subsidiaries	-	-	-	-	-	-	-	-	(308)	308	-	-	-
Dividend paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	(398)	(398)
Transfer	-	-	-	-	-	-	-	3,335	-	(3,335)	-	-	-
At June 30, 2014 (unaudited)	6,909	758,792	96,269	(215,523)	8,108	(1,168)	5,190	35,758	97,995	65,598	857,928	14,544	872,472

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

For the six months ended June 30, 2014

notes:

(i) The special reserve represents the difference between the nominal value of the share capital issued by the Company and the share premium and the nominal value of the share capital of the subsidiaries comprising the Group prior to the group reorganisation in 2008.

(ii) The other reserve represents the difference between the fair value of the consideration paid or received and the relevant share of carrying value of the subsidiaries' net assets acquired from or disposed of to the non-controlling interests.

As at January 1, 2013 and June 30, 2013, included in the balance is also the fair values of the share-settled consideration at the dates of acquisition of subsidiaries and business in prior periods that, less the amounts already settled by the Company by the issue of its shares at the end of the reporting period, will be settled by the Company by the issue of a fixed number of its ordinary shares in a future date. All of these shares were issued during the six months ended December 31, 2013 and the relevant balance has been transferred to share capital and share premium.

(iii) The revaluation reserve represents the fair value adjustments on intangible assets attributable to the equity interest previously held by the Group at the date of acquisition of subsidiaries. The amount recognised in the revaluation reserve will be transferred to accumulated profits upon disposal of these subsidiaries or the relevant assets, whichever is earlier.

(iv) According to the relevant laws in the People's Republic of China (the "PRC"), the subsidiaries of the Group established in the PRC are required to transfer at least 10% of their net profit after taxation, as determined under the PRC accounting regulations, to a non-distributable reserve fund until the reserve balance reaches 50% of their registered capital. The transfer to this reserve must be made before the distribution of a dividend to equity owners. The non-distributable reserve fund can be used to offset the previous years' losses, if any.

INTERIM RESULTS

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended June 30, 2014

	NOTE	For the six months ended June 30, 2014 US$'000 (unaudited)	2013 US$'000 (unaudited)
Net cash from (used in) operating activities		**91,342**	(14,474)
Net cash used in investing activities			
Purchase of property, plant and equipment		**(8,557)**	(9,766)
Placement of structured bank deposit		**(9,743)**	–
Acquisition of subsidiaries, net of cash and cash equivalents acquired	13	**(4,741)**	–
Deposit paid for acquisition of remaining interest in a subsidiary		**(1,609)**	–
(Advance to) repayment of advance to joint ventures		**(865)**	746
Interest received		**1,395**	1,104
Release of structured bank deposit		**2,144**	–
Proceeds from disposal of assets previously classified as held for sale		**4,026**	–
Repayment of advance to associates		**-**	2,407
Other investing cash flows		**(153)**	1,008
		(18,103)	(4,501)
Net cash used in financing activities			
Repayment of bank borrowings		**(162,973)**	(270,047)
Interest paid		**(5,330)**	(8,026)
Bank borrowings raised		**128,540**	244,923
Other financing cash flows		**9,322**	(3,402)
		(30,441)	(36,552)
Net increase (decrease) in cash and cash equivalents		**42,798**	(55,527)
Effect of foreign exchange rate changes		**(1,185)**	1,247
Cash and cash equivalents at beginning of the period		**42,359**	128,488
		83,972	74,208
Cash and cash equivalents at end of the period, represented by			
Bank balances and cash		**83,972**	82,971
Bank overdrafts		**-**	(8,763)
		83,972	74,208

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1. BASIS OF PREPARATION

The condensed consolidated interim financial information have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") and with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting".

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated interim financial information have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values.

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended December 31, 2013, as described therein.

Equity-settled share-based payment transactions

Share award scheme

When the trustee of the share award scheme purchases the Company's shares from the open market, the consideration paid, including any directly attributable incremental costs, is presented as shares held for share award scheme and deducted from total equity. No gain or loss is recognised on the transactions of the Company's own shares. When any shares are granted to participant, the costs of the granted shares are reversed from shares held for share award scheme and recognised in share award reserve.

The fair value of services received determined by reference to the fair value of shares awarded at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share award reserve).

When the trustee transfers the Company's shares to grantees upon vesting, the related costs of the granted shares vested are reversed from share award reserve. The difference arising from such transfer is debited/credited to accumulated profits.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Adoption of new and revised Hong Kong Financial Reporting Standards ("HKFRSs") effective in the current period

In the current interim period, the Group has applied, for the first time, the following new or revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities
Amendments to HKAS 36	Recoverable Amount Disclosures for Non-Financial Assets
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting
HK(IFRIC) – Int 21	Levies

Amendments to HKFRS 10, HKFRS 12 and HKAS 27 "Investment Entities"

The Group has applied the amendments to HKFRS 10, HKFRS 12 and HKAS 27 "Investment Entities" for the first time in the current interim period. The amendments to HKFRS 10 introduce an exception to consolidating subsidiaries for an investment entity, except where the subsidiaries provide services that relate to the investment entity's investment activities. Under the amendments to HKFRS 10, an investment entity is required to measure its interests in subsidiaries at fair value through profit or loss. To qualify as an investment entity, certain criteria have to be met. Specifically, an entity is required to:

- obtain funds from one or more investors for the purpose of providing them with professional investment management services;
- commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- measure and evaluate performance of substantially all of its investments on a fair value basis.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Adoption of new and revised Hong Kong Financial Reporting Standards ("HKFRSs") effective in the current period (Continued)

Amendments to HKFRS 10, HKFRS 12 and HKAS 27 "Investment Entities" (Continued)

Consequential amendments to HKFRS 12 and HKAS 27 have been made to introduce new disclosure requirements for investment entities.

The Directors of the Company anticipate that the application of the amendments will have no effect on the Group as the Company is not an investment entity.

Amendments to HKAS 36 "Recoverable Amount Disclosures for Non-Financial Assets"

The Group has applied the amendments to HKAS 36 "Recoverable Amount Disclosures for Non-Financial Assets" for the first time in the current interim period. The amendments to HKAS 36 remove the requirement to disclose the recoverable amount of a cash generating unit ("CGU") to which goodwill or other intangible assets with indefinite useful lives had been allocated when there has been no impairment or reversal of impairment of the related CGU. Furthermore, the amendments introduce additional disclosure requirements applicable to when the recoverable amount of an asset or a CGU is measured at fair value less costs of disposal. These new disclosures include the fair value hierarchy, key assumptions and valuation techniques used which are in line with the disclosure required by HKFRS 13 "Fair Value Measurements".

The Directors of the Company do not anticipate that the application of these amendments to HKAS 36 will have a significant impact on the Group's condensed consolidated interim financial information as the recoverable amount of an asset of CGU of the Group was determined based on the value in use calculation.

The adoption of other new or revised HKFRSs has had no material effect on the amounts reported in this condensed consolidated interim financial information or disclosures set out in this condensed consolidated interim financial information.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

3. REVENUE AND SEGMENTAL INFORMATION

The Group's operating segments are determined based on information reported to the chief operating decision maker ("CODM"), being the Board of Directors of the Company, for the purpose of resource allocation and performance assessment, as set out below for which discrete financial information is available.

(i) retailing of sportswear products and footwear products and commissions from leasing of large scale commercial spaces to retailers and distributors for concessionaire sales ("Retail Business");

(ii) distribution of licensed sportswear products and footwear products ("Brand Licensee Business"); and

(iii) manufacturing and sales of OEM sportswear products and footwear products ("Manufacturing Business").

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

3. REVENUE AND SEGMENTAL INFORMATION (Continued)

Segment revenue and results

The following is an analysis of the Group's revenue and results by operating segment for the periods under review.

For the six months ended June 30, 2014

	Retail Business US$'000	Brand Licensee Business US$'000	Manufacturing Business US$'000	Segment total US$'000	Eliminations US$'000	Consolidated US$'000
REVENUE						
External sales – sportswear and footwear products	952,421	3,133	3,414	958,968	-	958,968
External sales – commissions from concessionaire sales	7,625	-	-	7,625	-	7,625
Inter-segment sales*	-	1,870	224	2,094	(2,094)	-
Total segment revenue	960,046	5,003	3,638	968,687	(2,094)	966,593
RESULTS						
Segment results	21,728	(555)	(3,575)	17,598	(1,440)	16,158
Reconciling items:						
Central administrative expenses						(312)
Finance costs – net						(3,935)
Share of results of an associate						(516)
Share of results of joint ventures						(1,265)
Other gains (losses)						(2,442)
Profit before taxation						7,688

INTERIM RESULTS

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

3. REVENUE AND SEGMENTAL INFORMATION (Continued)

Segment revenue and results (Continued)

For the six months ended June 30, 2013

	Retail Business US$'000	Brand Licensee Business US$'000	Manufacturing Business US$'000	Segment total US$'000	Eliminations US$'000	Consolidated US$'000
REVENUE						
External sales – sportswear and footwear products	836,041	13,835	29,357	879,233	–	879,233
External sales – commissions from concessionaire sales	7,012	–	–	7,012	–	7,012
Inter-segment sales*	–	6,518	–	6,518	(6,518)	–
Total segment revenue	843,053	20,353	29,357	892,763	(6,518)	886,245
RESULTS						
Segment results	15,422	37	(6,447)	9,012	(710)	8,302
Reconciling items:						
Central administrative expenses						(656)
Finance costs – net						(6,922)
Share of results of associates						(192)
Share of results of joint ventures						(3,339)
Other gains (losses)						(2,523)
Loss before taxation						(5,330)

* Inter-segment sales are charged at prevailing market rates.

Segment results represent profit (loss) earned (incurred) by each segment without absorption of reconciling items, details of which are set out above. This is the measure reported to the CODM for the purpose of resource allocation and performance assessment.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

4. INCOME TAX EXPENSE

	For the six months ended June 30,	
	2014	2013
	US$'000	US$'000
	(unaudited)	(unaudited)
Taxation attributable to the Company and its subsidiaries:		
Current tax:		
Hong Kong ("HK") Profits Tax (note i)	**-**	43
PRC Enterprise Income Tax ("EIT") (note ii)	**9,450**	8,198
Overseas income tax (note iii)	**792**	622
	10,242	8,863
Deferred tax charge	**39**	1,370
	10,281	10,233

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

4. **INCOME TAX EXPENSE** (Continued)

notes:

(i) **HK**

HK Profits Tax is calculated at 16.5% (six months ended June 30, 2013: 16.5%) of the estimated assessable profit for the period.

(ii) **PRC**

PRC EIT is calculated based on the statutory rate of 25% of the assessable profit for those subsidiaries established in the PRC, as determined in accordance with the relevant income tax rules and regulations in the PRC, except as follows.

Pursuant to《財政部、國家稅務總局、海關總署關於西部大開發稅收優惠政策問題的通知》(Caishui [2001] No. 202), the relevant state policy and with approval obtained from tax authorities in charge, certain subsidiaries which are located in specified provinces of Western China and engaged in a specific state-encouraged industry were subject to a preferential tax rate of 15% during the period from 2001 to 2010 when the annual revenue from the encouraged business exceeded 70% of its total revenue in a fiscal year. Such preferential tax treatment is further extended for a period of ten years from 2011 to 2020 on the condition that the enterprise must be engaged in state-encouraged industries as defined under the "Catalogue of Encouraged Industries in the Western Region" (the "Catalogue") pursuant to 《財政部、海關總署、國家稅務總局關於深入實施西部大開發戰略有關稅收政策問題的通知》 (Caishui [2011] No. 58) issued in 2011. The Directors of the Company consider that the relevant subsidiaries are engaged in the state-encouraged industries under the Catalogue and continue to enjoy the preferential tax rate of 15% in the current period.

(iii) **Overseas**

Taxation arising in other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

5. LOSS FOR THE PERIOD

	For the six months ended June 30, 2014 US$'000 (unaudited)	2013 US$'000 (unaudited)
Loss for the period has been arrived at after charging (crediting):		
Total staff cost (included in selling and distribution expenses and administrative expenses)	**87,653**	80,735
Operating lease rentals and concessionaire fees in respect of shopping malls/retail outlets (included in selling and distribution expenses)	**117,111**	106,765
Depreciation of property, plant and equipment	**12,114**	18,492
Allowance for inventories, net	**21,362**	4,065
Release of prepaid lease payments	**328**	326
Amortisation of intangible assets (included in selling and distribution expenses)	**3,839**	4,080
Net exchange loss (gain) (included in other operating income and gains (losses))	**5,578**	(2,197)
Subsidies, rebates and other income from suppliers (included in other operating income and gains (losses))	**(7,791)**	(9,004)
Impairment loss recognised on trade receivables (included in other operating income and gains (losses))	**2,114**	79
Loss on deregistration of subsidiaries (included in other gains (losses))	**233**	–
Impairment losses on loans to joint ventures (included in other gains (losses))	**2,845**	2,443
Fair value changes on consideration payable for acquisition of business (included in other gains (losses))	**(562)**	361
Fair value changes on structured bank deposit (included in other gains (losses))	**(74)**	–
Fair value changes on derivative financial instruments (included in other gains (losses))	**-**	(281)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

6. DIVIDEND

No dividends were paid or declared during the reported period. The Directors do not propose the payment of an interim dividend (six months ended June 30, 2013: nil).

7. LOSS PER SHARE

The calculation of the basic and diluted loss per share attributable to the owners of the Company is based on the following data:

	For the six months ended June 30,	
	2014	2013
	US$'000	US$'000
	(unaudited)	(unaudited)
Loss:		
Loss for the period attributable to owners of the Company for the purposes of basic and diluted loss per share	**(1,842)**	(16,582)

	For the six months ended June 30,	
	2014	2013
Number of shares:		
Weighted average number of ordinary shares for the purposes of basic and diluted loss per share	**5,376,278,781**	5,378,908,615

The weighted average number of ordinary shares shown above for the six months ended June 30, 2014 has been arrived at after deducting the shares held by the trustee of the share award scheme (see Note 12(b)).

The computation of diluted loss per share for each of the six months ended June 30, 2014 and 2013 does not assume the exercise of the Company's share options because the exercise prices of those options were higher than the average market price of the shares in the relevant periods.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

8. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

During the period, the Group acquired property, plant and equipment of US$8,940,000 (six months ended June 30, 2013: US$10,236,000).

During the six months ended June 30, 2014, property, plant and equipment of US$109,000 and intangible assets of US$5,900,000 were arising from the acquisition of subsidiaries (see Note 13).

9. TRADE AND OTHER RECEIVABLES

	At June 30, 2014 US$'000 (unaudited)	At December 31, 2013 US$'000 (audited)
Trade receivables	**182,866**	165,392
Deposits, prepayments and other receivables	**147,929**	184,047
	330,795	349,439

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

9. TRADE AND OTHER RECEIVABLES (Continued)

	At June 30, 2014 US$'000 (unaudited)	At December 31, 2013 US$'000 (audited)
Deposits, prepayments and other receivables represent:		
Prepayments paid to suppliers	**42,749**	78,175
Value-added tax recoverable	**38,192**	36,019
Rental deposits and prepaid rentals	**22,931**	24,065
Amounts due from related parties (note)	**11,623**	11,614
Consideration receivable for disposal of properties	**2,575**	2,639
Other prepaid expenses	**4,551**	4,043
Long-term loan receivables – due within one year	**1,434**	2,090
Prepaid lease payments – current	**651**	667
Other deposits, prepayments and receivables	**23,223**	24,735
	147,929	184,047

note: The amounts represent amounts due from an associate of US$805,000 (December 31, 2013: nil), certain joint ventures of US$7,940,000 (December 31, 2013: US$7,638,000) and certain entities controlled by Yue Yuen Industrial (Holdings) Limited ("Yue Yuen"), an intermediate holding company whose shares being listed on the Stock Exchange, of US$2,878,000 (December 31, 2013: US$3,976,000), and are unsecured and expected to be recovered within one year. Except for an aggregate amount of US$5,105,000 (December 31, 2013: US$3,742,000) due from certain joint ventures which was interest-bearing and carries variable interest rate ranging from 6.16% to 6.72% (December 31, 2013: ranging from 6.16% to 6.72%) per annum, the remaining balance is interest-free.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

9. TRADE AND OTHER RECEIVABLES (Continued)

The Group allows an average credit period of 30 days to 60 days which are agreed with each of its trade customers. The aged analysis of the Group's trade and bills receivables net of allowance for doubtful debts, presented based on the invoice date at the end of the reporting period, which approximated the respective revenue recognition dates, is as follows:

	At June 30, 2014 US$'000 (unaudited)	At December 31, 2013 US$'000 (audited)
0 to 30 days	**154,616**	133,421
31 to 90 days	**20,711**	24,701
Over 90 days	**7,539**	7,270
	182,866	165,392

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

10. TRADE AND OTHER PAYABLES

	At June 30, 2014 US$'000 (unaudited)	At December 31, 2013 US$'000 (audited)
Trade payables	**49,529**	98,912
Bills payables	**509**	387
Other payables	**147,181**	122,650
	197,219	221,949
Other payables represent:		
Receipt in advance from customers	**49,389**	45,733
Amounts due to related and connected parties (note)	**11,373**	762
Deposits received from customers	**13,024**	13,193
Accruals and other payables	**73,395**	62,962
	147,181	122,650

note: The amounts mainly represent amounts due to an entity controlled by Yue Yuen of US$10,622,000 (December 31, 2013: nil) and non-controlling interests of subsidiaries of US$751,000 (December 31, 2013: US$762,000). The amounts are temporary fund transfers, which are non-trade in nature.

The entire amounts are unsecured and repayable on demand. Amounts due to non-controlling interests of subsidiaries are non-interest bearing. Amount due to an entity controlled by Yue Yuen as at June 30, 2014 carries interest at 3.4% per annum (December 31, 2013: nil).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

10. TRADE AND OTHER PAYABLES (Continued)

The aged analysis of the Group's trade and bills payables, presented based on the invoice date at the end of the reporting period, is as follows:

	At June 30, 2014 US$'000 (unaudited)	At December 31, 2013 US$'000 (audited)
0 to 30 days	**48,459**	97,769
31 to 90 days	**22**	838
Over 90 days	**1,557**	692
	50,038	99,299

11. SHARE CAPITAL

	Number of shares	Nominal value HK$'000
Ordinary shares of HK$0.01 each		
Authorised:		
At January 1, 2013, June 30, 2013, January 1, 2014 and June 30, 2014	30,000,000,000	300,000
Issued and fully paid:		
At January 1, 2013 and June 30, 2013	5,332,943,953	53,329
Issue of shares in July 2013 for acquisition of business in prior years	39,634,662	396
Issue of shares in September 2013 for acquisition of subsidiaries in prior years	6,330,000	63
At December 31, 2013 and June 30, 2014	5,378,908,615	53,788

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

11. SHARE CAPITAL (Continued)

	At June 30, 2014 US$'000 (unaudited)	At December 31, 2013 US$'000 (audited)
Shown in the condensed consolidated interim financial information	**6,909**	6,909

12. SHARE OPTION SCHEME AND SHARE AWARD SCHEME

(a) Share Option Scheme

The existing share option scheme was approved by the shareholders of the Company and adopted on May 14, 2008. Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2014		2013	
	Weighted average exercise price HK$	**Number of share options**	Weighted average exercise price HK$	Number of share options
As at January 1,	**1.38**	**57,067,000**	1.41	76,335,000
Forfeited	**1.33**	**(1,605,000)**	1.49	(13,008,000)
As at June 30,	**1.39**	**55,462,000**	1.39	63,327,000
Exercisable at the end of the reporting period	**1.41**	**49,462,000**	1.41	38,065,800

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

12. SHARE OPTION SCHEME AND SHARE AWARD SCHEME (Continued)

(a) Share Option Scheme (Continued)

Share options outstanding at June 30, 2014 and December 31, 2013 have the following expiry dates and exercise prices:

		Number of share options	
Year of expiry	Exercise price HK$	**At June 30, 2014**	At December 31, 2013
2018	1.62	**23,112,000**	23,512,000
2019	1.23	**30,475,000**	31,680,000
2020	1.05	**1,875,000**	1,875,000
		55,462,000	57,067,000

(b) Share Award Scheme

The Company's share award scheme (the "Share Award Scheme") was adopted pursuant to a board resolution passed on May 9, 2014. The objective of the Share Award Scheme is to recognise the contributions by certain persons, including Directors of the Company and employees of the Group (the "Selected Participants") and to provide incentives to retain them for the continual operation and development of the Group, and to attract suitable personnel for further development of the Group. The Share Award Scheme became effective on May 9, 2014 and, unless otherwise terminated or amended, will remain in force for 10 years.

The Share Award Scheme is operated through a trustee which is independent of the Group. After the notification and instruction by the Company, the trustee has the right to, among other conditions, in its sole discretion, determine whether the shares are to be purchased on or off the Stock Exchange from time to time, unless during the year at which the Directors of the Company are prohibited by the Listing Rules or any corresponding codes or securities dealing restrictions adopted by the Company.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

12. SHARE OPTION SCHEME AND SHARE AWARD SCHEME (Continued)

(b) Share Award Scheme (Continued)

The Directors would notify the trustee of the Share Award Scheme in writing upon the making of any award to any participants. Upon the receipt of such notice, the trustee would set aside the appropriate number of awarded shares in the pool of shares. The relevant awarded shares shall vest in accordance with the conditions and timetable as set out in the relevant letter of award issued to the Selected Participant. Vesting of the award shares will be conditional on the Selected Participants remaining an employee of the Group on a vesting date and the Board has not determined to vary or cancel such an award for any reason. An award shall automatically lapse forthwith when a Selected Participant has taken unpaid leave of absence and does not return to work before the expiry of 24 months from the original vesting date, or ceases to be an employee of the Group, or the subsidiary employing the Selected Participant ceases to be a subsidiary, or an order for the winding-up of the Company is made or a resolution is passed for the voluntary winding-up of the Company, or Selected Participant's employment is terminated for cause if the award has not been vested.

During the six months ended June 30, 2014, 20,000,000 ordinary shares of the Company have been acquired at an aggregate cost of HK$9,058,000 (equivalent to approximately US$1,168,000). There were no awarded shares granted or outstanding during the period ended June 30, 2014.

The Board of Directors of the Company approved on August 13, 2014 to grant an aggregate of 11,000,000 awarded shares to certain employees of the Group pursuant to the Share Award Scheme.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

13. ACQUISITION OF SUBSIDIARIES

For the six months ended June 30, 2014

On April 7, 2014, the Group completed the acquisition of the entire equity interest in Welcome Wealth Properties Limited and its subsidiaries (the "Welcome Wealth Group"), which own a chain of retail stores in the PRC and Taiwan, including the related tangible and intangible assets, from independent third parties, for the purpose of strengthening its market position and geographical coverage in the PRC and Taiwan sportswear market. The Group obtained control over the business on the date of completion of the acquisition, which has been accounted for using the purchase method. Further details of the acquisition, including considerations paid, assets acquired and liabilities recognised are set out below.

	US$'000
Consideration for the acquisition:	
Cash consideration	6,760
Provisional fair value of assets acquired and liabilities recognised at the date of acquisition are as follow (note(a)):	
Property, plant and equipment	109
Rental deposits and prepayments	703
Licensing agreements (included in intangible assets) (note (b))	5,900
Inventories	4,375
Trade and other receivables (note (c))	5,873
Bank balances and cash	2,019
Trade and other payables	(7,516)
Bank borrowings	(3,300)
Deferred tax liabilities	(1,403)
	6,760

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

13. ACQUISITION OF SUBSIDIARIES (Continued)

For the six months ended June 30, 2014

	US$'000
Cash flows arising on acquisition:	
Cash consideration paid for acquisition	(6,760)
Less: bank balances and cash acquired	2,019
Net cash outflows	(4,741)
Acquisition-related cost (note (d))	15

notes:

(a) The initial accounting for the acquisition of Welcome Wealth Group has been determined provisionally for the intangible assets to be identified and recognised, awaiting the receipt of professional valuation in relation to the respective fair values.

(b) Intangible assets, being licensing agreements were valued as of the date of acquisition by APAC Asset Valuation and Consulting Limited ("APAC Asset Valuation"), using Relief from Royalty method under the Income Approach.

The management of the Group considers the licensing agreements have finite useful lives and are amortised on a straight-line basis over 10 years.

In estimating the fair values of the intangible assets on initial recognition, the present values of the net cash flows attributable to the intangible assets were determined using a discount rate of 17% for Welcome Wealth Group. Other key assumptions used in the calculations related to the estimation of cash inflows/outflows was the budgeted sales. Such estimation was based on the past performance of the acquiree and its subsidiaries and management's expectations for the market development.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

13. ACQUISITION OF SUBSIDIARIES (Continued)

notes: (Continued)

(c) At the acquisition date, the gross contractual amount of the receivables acquired was equivalent to its fair value as it was expected that all amounts were fully collectible.

(d) The acquisition-related cost was recognised as an expense in the current period in the condensed consolidated income statement.

(e) Pro-forma revenue and profit

Included in the profit for the six months ended June 30, 2014 was profit of US$20,000 attributable to the additional businesses generated by Welcome Wealth Group. Revenue for the six months ended June 30, 2014 included US$7,303,000 generated from Welcome Wealth Group. Had the acquisition been completed on January 1, 2014, total group revenue for the six months ended June 30, 2014 would have been US$974,004,000, and the loss for the same period would have been US$2,821,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on January 1, 2014, nor is it intended to be a projection of future results.

(f) During the current period, the Group purchased footwear products manufactured by a subsidiary and a joint venture of Yue Yuen in the aggregate amount of US$2,361,000. These transactions fall under the definition of "continuing connected transactions" under the Listing Rules.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

14. CONTINGENCIES AND COMMITMENTS

At the end of the reporting period, the Group had the following contingencies and commitments:

(i) Contingencies

	At June 30, 2014 US$'000 (unaudited)	At December 31, 2013 US$'000 (audited)
Guarantee given to banks in respect of banking facilities granted to a joint venture		
– amount guaranteed	**4,426**	4,535
– amount utilised	**2,414**	3,832

(ii) Commitments

	At June 30, 2014 US$'000 (unaudited)	At December 31, 2013 US$'000 (audited)
Capital expenditure contracted for but not provided in the condensed consolidated interim financial information in respect of acquisition of the remaining interests in		
– a joint venture	**11,286**	11,565
– a subsidiary	**1,191**	–
	12,477	11,565

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

15. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

(i) Fair value of financial instruments that are measured at fair value on a recurring basis

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of the reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

15. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (Continued)

(i) Fair value of financial instruments that are measured at fair value on a recurring basis (Continued)

Set out below is the information about how the fair values of the Group's financial instruments that are measured at fair value are determined, including the valuation techniques and inputs used:

	Fair value as at		
	June 30, 2014 US$'000 (unaudited)	December 31, 2013 US$'000 (audited)	**Fair value hierarchy**
Financial asset			
Structured bank deposit (note (a))	**9,730**	2,144	Level 3
Financial liability			
Consideration payable for acquisition of business (note (b))	**17,461**	18,016	Level 3

notes:

(a) The fair value of the structured bank deposit as at June 30, 2014 is based on its redemption price from the bank, where a significant key input in the valuation model is the 6-month Shanghai Interbank Offered Rate.

The fair value of the structured bank deposit as at December 31, 2013 was based on its redemption price from the bank, where a significant key input in the valuation model is the yields of the underlying debt instruments.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

15. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (Continued)

(i) Fair value of financial instruments that are measured at fair value on a recurring basis (Continued)

notes: (Continued)

(b) Consideration payable for acquisition of business represents the amount that the Group may have to compensate the vendor for the shortfall, if any, of the market value of the ordinary shares of the Company issued for the acquisition of a business in prior years below HK$4 each at the expiry of a pre-determined restricted period during, until which the shares issued by the Company are placed in an escrow account and the Company's consent is required for any withdrawal. The valuation technique adopted is Binomial Option Pricing Model whereas the key inputs to the valuation models include the share price at date of valuation, risk free rate, expected volatility, expected life of the guaranteed compensation and the expected dividend yield. The significant unobservable inputs in the valuation model include the expected volatility with reference to the historical price volatility and the expected dividend yield of the Company. Both inputs are positively related to the fair value of the consideration payable for acquisition of business. If any of the unobservable inputs above were 5% higher/lower while all the other variables were held constant, the changes in fair value of the consideration payable for acquisition of business would not be significant.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

15. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (Continued)

(i) Fair value of financial instruments that are measured at fair value on a recurring basis (Continued)

notes: (Continued)

(b) (Continued)

The fair value of the guaranteed compensation as at December 31, 2013 and June 30, 2014 is determined by APAC Asset Valuation using the Binomial Option Pricing Model.

The key inputs into the model are set out below:

	At June 30, 2014	At December 31, 2013
Share price at date of valuation	**HK$0.53**	HK$0.40
Exercise price per share	**HK$4.00**	HK$4.00
Risk free rate	**0.53%**	0.65%
Expected volatility	**47%**	44%
Expected life of the guaranteed compensation	**2.39 years**	2.89 years
Expected dividend yield	**Nil**	Nil

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

15. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (Continued)

(ii) Reconciliation of Level 3 Measurements

The following table presents the reconciliation of Level 3 Measurements of the Group's financial instruments for the six months ended June 30, 2014 and 2013:

	Structured bank deposit US$'000	Consideration payable for acquisition of business US$'000
For the six months ended June 30, 2014		
At January 1, 2014 (audited)	2,144	(18,016)
Settlement	(2,144)	–
Purchase	9,743	–
Fair value gain, recognised in profit or loss (included in other gains (losses))	74	562
Exchange realignment	(87)	(7)
At June 30, 2014 (unaudited)	9,730	(17,461)
For the six months ended June 30, 2013		
At January 1, 2013 (audited)	–	(17,980)
Fair value loss, recognised in profit or loss (included in other gains (losses))	–	(361)
Exchange realignment	–	12
At June 30, 2013 (unaudited)	–	(18,329)

(iii) There were no significant changes in the business or economic circumstances that affect the fair value of the Group's financial instruments or any reclassification of financial instruments in any of the period ended June 30, 2014 or June 30, 2013.

(iv) Fair value of financial instruments that are recorded at amortised cost

The Directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the condensed consolidated interim financial information approximate their fair values at the end of the reporting period.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group aims to be a leading distributor in the Greater China region of sports and lifestyle products that help consumers pursue the goals of having good health and a sustainable environment. In the past half year, the Group was mainly involved in two categories of businesses. The first is the retail business which involved the sales of various international brand sportswear products including footwear, apparel and accessories, to consumers through our directly operated retail outlets, or on a wholesale basis to sub-distributors, who in turn sold these items to consumers through their respective retail outlets. As at June 30, 2014, the Group had 3,868 directly operated retail outlets and 2,405 retail sub-distributors. Within the network of the regional joint ventures, there were 691 directly operated retail outlets and 400 retail sub-distributors. Whenever possible the Group will pursue being the exclusive distributor for a brand. During the period, the Group had an exclusive distribution arrangement with the brand O'Neill, involving the regions China, Hong Kong and Macau.

The brand licensee business is the other category of business. The brand licensee agreements usually grant the Group exclusive rights to design, develop, manufacture, market and distribute, and the flexibility to set retail prices for the brand products at the designated locations for specified periods of time. During the period, the Group was the brand licensee in Taiwan for Hush Puppies and also in Taiwan and China for Pony brand since April this year.

FINANCIAL REVIEW

For the first six months, the Group recorded revenue of US$966.6 million, representing an increase of 9.1% as compared with the same period last year. For gross profit, the Group recorded US$287.9 million which was an increase of 15.4% against the same period last year. The loss attributable to owners of the Company in the current year was US$1.8 million, a significant improvement compared to the loss attributable to owners of the Company of US$16.6 million in the first half of fiscal year 2013.

REVENUE

Aggregate revenue for the Group increased by 9.1% to US$966.6 million for the six months ended June 30, 2014, as compared to US$886.2 million reported in the same period last year. The increase was due to the solid growth in the retail business sales: this more than compensated for the shrinkage in sales for the brand licensee business and the manufacturing business.

MANAGEMENT DISCUSSION AND ANALYSIS

Retail Business

The retail business reported revenue of US$960 million, an increase of 13.9% compared with the same period last year. This was primarily due to improvements in store productivity within the distribution network.

Brand Licensee Business

Various restructuring actions were taken for this business in the last year so that activity for this category fell in the period. As a result, brand licensee related sales dropped to US$3.1 million, representing a decline of 77.4% compared with fiscal year 2013.

GROSS PROFIT

Gross profit for the Group amounted to US$287.9 million. Gross profit margin was 29.8%. Both gross profit amount and gross profit margin were better than the comparable amounts achieved in the same period last year. The dominance of the retail business was key to achieving better figures in this area.

SELLING AND DISTRIBUTION EXPENSES AND ADMINISTRATIVE EXPENSES

Selling and distribution expenses and administrative expenses of the Group for the period were in aggregate US$278 million, representing 28.8% of total revenue and the ratio remained similar to last period. The various steps taken by management to control expenses continue to be effective. Much effort continues to be spent in fine tuning the store mix so that low yielding stores are closed, and new ones are opened in locations with good customer traffic.

OPERATING PROFIT

The Group operating profit margin for the period was 1.6%, and operating profit was US$15.8 million, a significant improvement compared with the operating profit of US$7.6 million in the same period last year.

SHARE OF RESULTS OF AN ASSOCIATE AND JOINT VENTURES

Most joint ventures were involved in the sales of domestic brand products. Due to the general improvement in consumer spending on sportswear as well as inventory issues being much less of a concern, these ventures experienced better times. The discounting and proactive promotion needed were of a smaller magnitude and thus the share of results of an associate and joint ventures incurred losses of US$1.8 million for the half year. For the same period last year, the loss from these categories was US$3.5 million.

OTHER GAINS (LOSSES) ARISING OTHER THAN OPERATING ACTIVITIES

The Group incurred various gains (losses) from a variety of situations amounting the net loss of US$2.4 million in the half year.

LOSS FOR THE PERIOD

Due to the aforementioned reasons, loss for the Group in this half year was US$2.6 million which was an improvement over the loss of US$15.6 million in the same period last year.

WORKING CAPITAL EFFICIENCY

The average inventory turnover period for the period was 157 days (2013: 177 days). The reduction in inventory turnover period was due to the tighter scrutiny of inventory at the stores and the increase in consumer spending during the half year. The Group continues to explore different strategies for managing inventory so as to optimize working capital levels. The average trade receivables turnover period was 33 days (2013: 35 days), which remained consistent with the credit terms of 30 to 60 days that the Group gives to its department store counters and retail distributors. The average trade and bills payables turnover period was 20 days (2013: 22 days).

LIQUIDITY AND FINANCIAL RESOURCES

As at June 30, 2014, the Group's cash and cash equivalents were US$84 million (December 31, 2013: US$61.4 million) and working capital (current assets minus current liabilities) was US$546.5 million (December 31, 2013: US$606.4 million). Our total bank borrowings decreased by 20% to US$214 million from US$267.6 million as at December 31, 2013 and are repayable within one year. The Group's current ratio was 231% (December 31, 2013: 231%). The gearing ratio (total borrowings to total equity) was 25% (December 31, 2013: 30%).

During the period, net cash generated from operating activities was US$91.3 million. The Group believes its liquidity requirements will be satisfied with a combination of capital generated from operating activities and bank borrowings in the future. Net cash used in investing activities was US$18.1 million, of which US$8.6 million was used to purchase of property, plant and equipment. Net cash used in financing activities was US$30.4 million. During the period, the Group raised and repaid bank borrowings of US$128.5 million and US$163 million respectively.

CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

As at June 30, 2014, the Group has capital commitments of US$11.3 million and US$1.2 million in respect of the acquisition of the remaining interests in a joint venture and the additional interest in a subsidiary, respectively. In addition, the Group had contingent liabilities of US$2.4 million in relation to guarantee given to bank in respect of banking facilities granted to a joint venture.

MANAGEMENT DISCUSSION AND ANALYSIS

FOREIGN EXCHANGE

The Group conducted its business primarily in the PRC with substantially all of its transactions denominated and settled in Renminbi. An appreciation or depreciation between US dollars and Renminbi may result in an exchange difference arising on translation which is recognized either as other comprehensive income or expense in the condensed consolidated statement of comprehensive income as the US dollar is used as our reporting currency. As at June 30, 2014, the Group had no significant hedge for the foreign exchange exposure.

BUSINESS MODEL

The operating environment for the Group has stabilized after the deterioration experienced in 2012 and 2013. First, the economies outside of the Greater China region are starting to recover, with North America providing initial signals of growth and with Europe on the other hand reporting some indications that further economic decline is not likely. With this somewhat better picture for the global economy, the stage has been set for tempered improvement in the coming years for the PRC economy: a gradual improvement in the demand for its goods and services should be observable in time. The leadership in the PRC has provided guidance as to how they want to take the economy forward, and from various quarters it appears that consumers will have more confidence in the coming eighteen to twenty-four months. The sportswear industry has experienced some consolidation so that issues in earlier years such as excess capacity and excess inventory have peaked in their significance. It is expected that the margins and profitability of the remaining market participants should stabilize over time and begin to improve in 2016.

The Group continues to pursue its goal of becoming a leading retailer in the sportswear industry and to be the best partner of international athletic brands in the PRC. The Group is a leading distributor of international brand athletic apparel and footwear in the first and second tier cities, reaching out to consumers either by selling to them through directly owned stores, or by wholesaling products to sub-franchisees through their stores that sell athletic apparel and footwear to consumers. Previously, the Group pursued a high growth strategy by acquiring other retail chains and opening new retail outlets whenever possible. Going forward, the Group will focus on improving the efficiency of the existing sales network using a combination of techniques. The Group works closely with the brands to 1) help them understand the changing tastes of consumers in the PRC so that they can develop effective marketing campaigns and 2) help them making appropriate estimates of the sell-through capacity for the market to allow for better management of inventories. For the operation of the stores, various restructuring efforts have taken place. More effective monitoring of key performance indicators has been implemented to assess store efficiency and profitability. The improvements in store efficiency and profitability are achieved through a) the better management of human resources; b) broader integration and optimization of information technology and logistics; and c) more timely information to determine the better selling items and to take action to acquire those products with good sell through.

MANAGEMENT DISCUSSION AND ANALYSIS

Our present scale, derived from organic expansion and acquisitions, makes us one of the key national retailers for a number of international brands, such as Nike and Adidas. To maintain our advantage, we will closely observe the behavior of consumers in the PRC, making sure we understand their sophistication and desires. Besides constantly assessing our portfolio mix to ensure we have the best portfolio of brands, we will also expand our capabilities to 1) distribute outdoor performance branded apparel and footwear; 2) establish over time a multi-brand store format for selected stores to capture consumer spending in a more effective manner; and 3) establish e-commerce platforms to facilitate off-line and on-line connection with consumers.

In addition, for our brand licensee business, apart from sports brands, the Group will also pursue opportunities among outdoor leisure brand business to benefit from markets trends and enrich its business portfolio so as to develop another avenue for sales growth. The Group continues to explore collaboration opportunities with foreign brands that a) allow for the development of brand strength; b) offer a broad range of products; and c) provide sufficient flexibility so that suitably designed products will be created that fulfill the specific needs of consumers in the PRC market.

PROSPECTS

The Group is optimistic that over the next five years, the sports industry in the PRC will start to show sustainable trend growth as consumers realize that physical activity is an important component for maintaining good health, their rising incomes makes sportswear affordable to them, and as a result of the newsfeed they receive regarding global sporting events, they derive more entertainment from participation in sports activities. Major athletic and outdoor performance brands are also devoting more attention to developing the opportunities in China. A few of them are deploying demand creation strategies that are similar to those used in the USA and Europe. The Group is of the view that product differentiation and segmentation will ensure that consumers recognize that "performance" athletic or outdoor products have features that are superior to those of fast retailing "fashion" products.

We believe that 2014 is a period of preparation for the Group and will serve as the basis for improvement in the future.

HUMAN RESOURCES

As at June 30, 2014, the Group had about 21,400 employees. The Group periodically reviews the performance of its employees so as to be able to conduct annual salary reviews and promotion appraisals. In order to remain competitive in the labor market, the Group makes references to the remuneration packages offered by other industry players. In addition, the Group also provides other fringe benefits, such as social insurance, mandatory provident funds, medical coverage and training programs to employees based on their respective personal career development.

OTHER INFORMATION

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURE

As at June 30, 2014, the interests or short positions of the Directors and chief executives of the Company in the shares, underlying shares and debenture of the Company and its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in the Listing Rule, were as follows:

Long Position in shares

(a) *The Company*

Ordinary shares of HK$0.01 each of the Company

Name of Director	Capacity	Number of ordinary shares Personal Interest	Family Interest	Corporate Interest	Other Interest	Total	Percentage of the issued share capital
Tsai David, Nai Fung	Beneficial Owner	6,041,250	-	-	-	6,041,250	0.11%
Tsai Patty, Pei Chun	Beneficial Owner	7,894,000 [1]	-	-	-	7,894,000	0.15%

Notes:

1 From July 3, 2014 to July 11, 2014, Ms. Tsai Patty, Pei Chun has purchased 2,497,000 shares of the Company. As at the date of this report, Ms. Tsai has personal interests of 10,391,000 shares in the Company.

OTHER INFORMATION

(b) Associated Corporation – Yue Yuen Industrial (Holdings) Limited ("Yue Yuen")

Ordinary shares of HK$0.25 each of Yue Yuen

Name of Director	Capacity	Number of ordinary shares: Personal Interest	Family Interest	Corporate Interest	Other Interest	Total	Percentage of the issued share capital
Tsai David, Nai Fung	Beneficial of a trust	-	-	-	101,126,262 [1]	101,126,262	6.13%
Tsai Patty, Pei Chun	Beneficial of a trust	-	-	-	101,126,262 [1]	101,126,262	6.13%
Kwan, Heh-Der	Beneficial Owner	45,000 [2]	-	-	-	45,000	0.00%

Notes:

1 Each of Mr. Tsai David, Nai Fung and Ms. Tsai Patty, Pei Chun is deemed to be interested in these shares by virtue of his/her capacity as a beneficiary of a discretionary trust.

2 Awarded shares granted to Mr. Kwan, Heh-Der pursuant to a share award scheme of Yue Yuen which are subject to certain vesting conditions and remained unvested.

Save as disclosed above, none of the Directors or chief executive of the Company had, as at June 30, 2014 any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

OTHER INFORMATION

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at June 30, 2014, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that other than the interest disclosed above in respect of certain Directors and chief executives of the Company, the following shareholders had notified the Company of relevant interests in the issued share capital of the Company:

Name of Shareholder	Notes	Capacity/ Nature of interest	Number of ordinary shares held	Percentage of the issued share capital
Major Focus Management Limited ("Major Focus")	(a)	Beneficial owner	3,295,923,560	61.27%
Yue Yuen	(a), (b)	Interest of a controlled corporation/ Beneficial owner	3,295,923,560	61.27%
Wealthplus Holdings Limited ("Wealthplus")	(b)	Interest of a controlled corporation	3,295,923,560	61.27%
Pou Chen Corporation ("PCC")	(b)	Interest of a controlled corporation	3,295,923,560	61.27%

OTHER INFORMATION

Notes:

All the shares are long positions.

(a) 3,295,923,560 shares are held by Major Focus, a wholly-owned subsidiary of Yue Yuen.

(b) PCC is deemed to be interested in these shares under the SFO by virtue of its interests in more than one third of the voting shares in Wealthplus, which in turn is deemed to be interested in these shares under the SFO by virtue of its interests in more than one third of the voting shares in Yue Yuen. Wealthplus is wholly owned by PCC and is interested in more than one third of the issued share capital of Yue Yuen.

Mr. Tsai David, Nai Fung, a director of the Company, is also a director of Wealthplus and PCC.

Ms. Tsai Patty, Pei Chun, a director of the Company, is also a director of Yue Yuen and Wealthplus.

Save as disclosed above, as at June 30, 2014, the Directors were not aware of any other person (other than Directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were required, pursuant to Section 336 of the SFO, to be entered into the register referred to therein.

OTHER INFORMATION

SHARE OPTION SCHEME

The Company recognises the importance of offering incentives and rewards through the grant of share-based incentive mechanism for attracting talents and retaining employees. The Company believes that this will align their interests with that of the Company.

On May 14, 2008, the Company adopted a share option scheme under which the Board may at its discretion grant any participant share options, as it may determine appropriate. The share option scheme is valid and effective for a period of ten years commencing on May 14, 2008, after which no further share options may be offered or granted.

In order to provide greater flexibility to the Board in the treatment of outstanding share options held by the grantees in the event that they cease to become a participant, certain terms of the share option scheme were amended on March 7, 2012 (the "Share Option Scheme") as approved by the shareholders of the Company and Yue Yuen. The terms are amended as that in the event a grantee of a share option, who is an employee or a director of the Group, ceases to be a participant under the Share Option Scheme by any reason other than death or termination of his employment on grounds of summary dismissal, the Board may by written notice to such grantee within one month from (and including) the date of cessation or termination of such employment or directorship determine whether such share option shall lapse or the period within which such share option (or such remaining part thereof) shall be exercisable following such date of cessation or termination of employment or directorship but before the expiry of the original share option period and if the Board does not serve such written notice within such one month period, the grantee may exercise the outstanding share options up to his entitlement as at the time of such cessation or termination of employment or directorship (to the extent not already exercised) at any time during the original share option period.

No share options were granted or exercised under the Share Option Scheme during the six months ended June 30, 2014.

During the six months ended June 30, 2014, the Group recognised a net income of US$28,000 as equity-settled share-based payments in relation to the share options' respective vesting periods and the options forfeited before vested under the Share Option Scheme.

OTHER INFORMATION

Pursuant to the Share Option Scheme, movements in share options during the period under review were listed below:

Date of grant	Exercise price HK$	Vesting date	Exercisable period	Number of share options: Balance at January 1, 2014	Granted during the period	Exercised during the period	Lapsed/ cancelled during the period	Balance at June 30, 2014
Employees/Consultants								
21.01.2010	1.62	21.01.2011	21.01.2011-20.01.2018	2,895,450	-	-	-	2,895,450
		21.01.2012	21.01.2012-20.01.2018	2,895,450	-	-	-	2,895,450
		21.01.2013	21.01.2013-20.01.2018	5,790,900	-	-	-	5,790,900
		21.01.2014	21.01.2014-20.01.2018	7,721,200	-	-	(400,000)	7,321,200
20.01.2011	1.23	20.01.2012	20.01.2012-19.01.2019	5,977,500	-	-	-	5,977,500
		20.01.2013	20.01.2013-19.01.2019	5,977,500	-	-	-	5,977,500
		20.01.2014	20.01.2014-19.01.2019	5,977,500	-	-	(477,500)	5,500,000
		20.01.2015	20.01.2015-19.01.2019	5,977,500	-	-	(727,500)	5,250,000
07.03.2012	1.05	07.03.2013	07.03.2013-06.03.2020	375,000	-	-	-	375,000
		07.03.2014	07.03.2014-06.03.2020	375,000	-	-	-	375,000
		07.03.2015	07.03.2015-06.03.2020	375,000	-	-	-	375,000
		07.03.2016	07.03.2016-06.03.2020	375,000	-	-	-	375,000
Sub-total				44,713,000	-	-	(1,605,000)	43,108,000
Former Employees								
21.01.2010	1.62	21.01.2011	21.01.2011-20.01.2018	1,605,000	-	-	-	1,605,000
		21.01.2012	21.01.2012-20.01.2018	1,605,000	-	-	-	1,605,000
		21.01.2013	21.01.2013-20.01.2018	999,000	-	-	-	999,000
		21.01.2014	21.01.2014-20.01.2018	-	-	-	-	-
20.01.2011	1.23	20.01.2012	20.01.2012-19.01.2019	5,760,000	-	-	-	5,760,000
		20.01.2013	20.01.2013-19.01.2019	2,010,000	-	-	-	2,010,000
		20.01.2014	20.01.2014-19.01.2019	-	-	-	-	-
		20.01.2015	20.01.2015-19.01.2019	-	-	-	-	-
07.03.2012	1.05	07.03.2013	07.03.2013-06.03.2020	375,000	-	-	-	375,000
		07.03.2014	07.03.2014-06.03.2020	-	-	-	-	-
		07.03.2015	07.03.2015-06.03.2020	-	-	-	-	-
		07.03.2016	07.03.2016-06.03.2020	-	-	-	-	-
Sub-total				12,354,000	-	-	-	12,354,000
Grand total				57,067,000	-	-	(1,605,000)	55,462,000

OTHER INFORMATION

SHARE AWARD SCHEME

On May 9, 2014, the Company adopted a share award scheme (the "Share Award Scheme") for recognising the contributions by certain persons, including Directors of the Company and employees of the Group, providing incentives to retain them for the continual operation and development of the Group, and to attract suitable personnel for further development of the Group. The scheme shall be valid and effective for a term of 10 years commencing on May 9, 2014. Any proposed award must be recommended by the Remuneration Committee and approved by the Board.

The total number of shares to be awarded under the Share Award Scheme shall not exceed 2% of the issued share capital of the Company as at the date of grant. The maximum number of shares which may be awarded to a selected participant (including vested and non-vested shares) shall not exceed 1% of the issued share capital of the Company from time to time.

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

Other than the Share Option Scheme and Share Award Scheme disclosed above, at no time during the period was the Company or any of its holding companies, fellow subsidiaries or subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of the Company or any other body corporate.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended June 30, 2014, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities, except that the trustee of the Share Award Scheme, pursuant to the terms of the trust deed of the Share Award Scheme, purchased on the Stock Exchange a total of 20,000,000 shares of the Company at a total consideration of approximately US$1.2 million.

OTHER INFORMATION

LOAN AGREEMENTS WITH COVENANTS RELATING TO SPECIFIC PERFORMANCE OBLIGATIONS ON THE CONTROLLING SHAREHOLDER

The Company was a party to certain bank facilities that include conditions specifying the minimum equity interest of the Company to be held, directly or indirectly, by Yue Yuen, the controlling shareholder of the Company (the "Specific Performance Obligation") and any breach of the Specific Performance Obligation will cause a default in respect of the facilities. Disclosures pursuant to Rule 13.18 and Rule 13.21 of the Listing Rules in respect of the relevant loans are as follows:

Loan I On March 26, 2013, the Company entered into a facility agreement and a general agreement in respect of loans that are relevant to the operations of the Company.

Loan II On August 5, 2013, the Company (as guarantor) and an indirect wholly-owned subsidiary of the Company, namely Baosheng Daoji (Beijing) Trading Company Limited (as borrower) entered into a facility letter and other related financing documentation in respect of loans that are relevant to the operations of the Company.

	Aggregate level of the facility granted that maybe affected by such breach US$'000	Borrowing under such facility as at June 30, 2014 US$'000	Life of the facility	Specific performance obligation	Consequences on breach of specific performance obligation
Loan I	50,000	48,282	2 years after the date from the first drawdown	Yue Yuen (1) owns beneficially, directly or indirectly more than 50% of the Company; or (2) has the ability to direct or cause the direction of the management of the Company	The bank may opt to demand prepayment if change of control
Loan II	10,000	10,000	1 year	The Company remains a subsidiary of Yue Yuen	The entire outstanding be immediate due and payable
Total		58,282			

OTHER INFORMATION

UPDATE ON DIRECTORS' INFORMATION

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes in information of the Directors after March 26, 2014, the date of the Company's 2013 annual report are set out below:

(1) On June 11, 2014, Mr. Li I-nan retired as a non-executive director of Symphony Holdings Limited.

(2) On June 23, 2014, Mr. Wu, Pan-Tsu was appointed as a director of Elitegroup Computer Systems Co., Ltd. (shares of which are listed on the Taiwan Stock Exchange Corporation).

REVIEW OF ACCOUNTS

Disclosure of financial information in this report complies with Appendix 16 of the Listing Rules. The audit committee of the Company has reviewed the accounting principles and practices adopted by the Group and in the course have discussed with the management, the internal controls and financial reporting matters related to the preparation of the unaudited condensed consolidated interim financial information for the six months ended June 30, 2014.

The external auditor has reviewed the interim financial information for the six months ended June 30, 2014 in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA.

CORPORATE GOVERNANCE

During the six months ended June 30, 2014, the Company has applied the principles of and has complied with all code provisions set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as the Company's code of conduct for dealings in securities of the Company by Directors. All Directors have confirmed, following specific enquiry by the Company that they have complied with the required standard set out in the Model Code throughout the six months ended June 30, 2014.

OTHER INFORMATION

ACKNOWLEDGEMENT

I would like to take this opportunity to express our sincere appreciation of the support from our customers, suppliers and shareholders. I would also like to thank my fellow Directors for their valuable contribution and the staff members of the Group for their commitment and dedicated services throughout the period.

DIRECTORS

As at the date of this report, Mr. Tsai David, Nai Fung is the Chairman and Non-executive Director; Mr. Kwan, Heh-Der is the Chief Executive Officer and Executive Director; Mr. Wu, Pan-Tsu is the Executive Director; Ms. Tsai Patty, Pei Chun and Mr. Li I-nan are the Non-executive Directors; and Mr. Chen Huan-Chung, Mr. Chang Li Hsien, Leslie and Mr. Hsieh, Wuei-Jung are the Independent Non-executive Directors.

By Order of the Board
Tsai David, Nai Fung
Chairman

Hong Kong, August 13, 2014

Website: www.pousheng.com