Annual 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)

OUR MISSION

PROFESSIONALISM · DEDICATION · INNOVATION · SERVICE

Goal

To be the strongest and most innovative multi-channel retailer in sports-inspired and lifestyle industry – the customers' No.1 choice and the brand's best partner in China

Mission

We are committed to providing quality services and products to diversified customers in the sports-inspired and lifestyle industry, promoting high quality of living and healthy lives, as well as developing sustainable and profitable growth for our shareholders and employees

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CORPORATE OVERVIEW

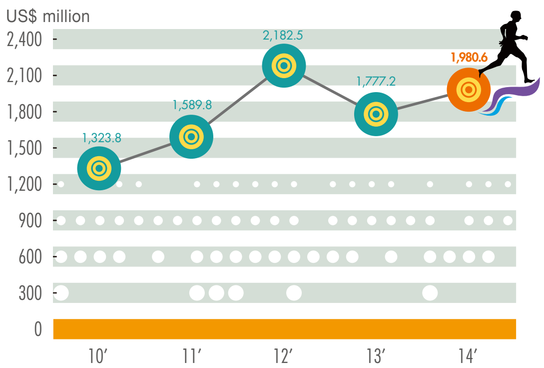
CORPORATE OVERVIEW

THE GROUP'S FINANCIAL HIGHLIGHTS

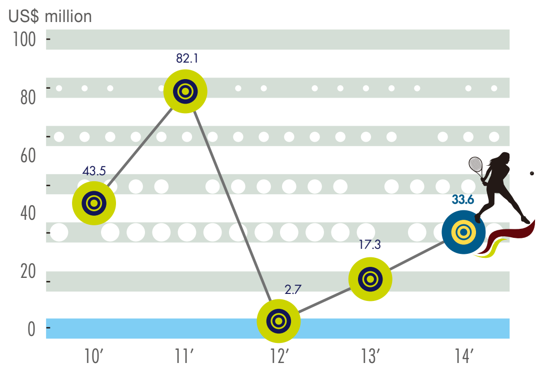
	For the year ended December 31,		Percentage increase
	2014	2013	
Revenue *(US$'000)*	1,980,575	1,777,187	11.4%
Operating profit *(US$'000)*	33,555	17,310	93.8%
Profit (loss) attributable to owners of the Company *(US$'000)*	4,649	(38,670)	N/A
Basic earnings (loss) per share *(US cent)*	0.09	(0.72)	N/A

KEY SHAREHOLDER VALUE INDICES

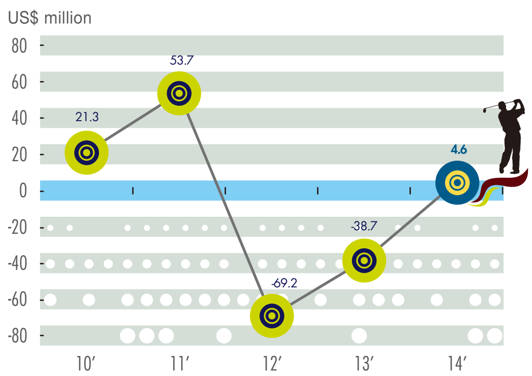
Revenue



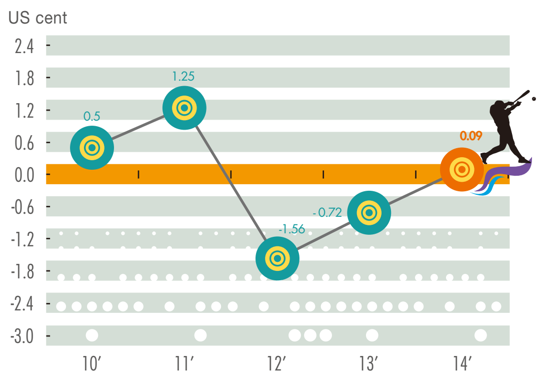
Operating Profit



Profit (Loss) Attributable to Owners of the Company



Basic Earnings (Loss) Per Share



CORPORATE INFORMATION

DIRECTORS

Non-executive Directors

Tsai David, Nai Fung[6] (Chairman)
Tsai Patty, Pei Chun[1]
Li I-nan[3]

Executive Directors

Kwan, Heh-Der (Chief Executive Officer)
Wu, Pan-Tsu

Independent Non-executive Directors

Chen Huan-Chung[2,3,5]
Hsieh, Wuei-Jung[4]
Shan Xue[1,5]

Notes:

1. Member of Audit Committee
2. Chairman of Audit Committee
3. Member of Remuneration Committee
4. Chairman of Remuneration Committee
5. Member of Nomination Committee
6. Chairman of Nomination Committee

COMPANY SECRETARY

Chong Yim Kuen

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

PRINCIPAL PLACE OF BUSINESS

Suites 3106-09, 31/F., Tower 6
The Gateway, 9 Canton Road
Tsim Sha Tsui, Kowloon
Hong Kong

STOCK CODE

3813 HK

AUDITOR

Deloitte Touche Tohmatsu

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

MUFG Fund Services (Bermuda) Limited
(formerly known as Butterfield Fulcrum Group (Bermuda) Limited)
The Belvedere Building
69 Pitts Bay Road
Pembroke HM08
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

SOLICITOR

Reed Smith Richards Butler

PRINCIPAL BANKERS

ANZ Bank (Taiwan) Limited
Bank SinoPac
Citibank Taiwan Limited
CTBC Bank Co., Limited
E.Sun Commercial Bank Limited
Industrial and Commercial Bank of China Limited
Standard Chartered Bank (China) Limited
Standard Chartered Bank (Hong Kong) Limited
Standard Chartered Bank (Taiwan) Limited
The Hongkong and Shanghai Banking Corporation Limited
United Overseas Bank Limited

WEBSITE ADDRESS

www.pousheng.com

CHAIRMAN'S STATEMENT

CHAIRMAN'S STATEMENT

Dear Shareholders,

I am pleased to present the annual results of the Pou Sheng Group for the financial year ended December 31, 2014 to the shareholders of the Company.

During the financial year 2014, operations of the Group exhibited stability as compared with the previous years of weakness. In 2014, consumer activity did not decline further despite the slower pace of economic growth in China, which could be seen in matters such as the lower consumption of commodities and the various indicators showing lower manufacturing activity. Consumer spending in China was resilient and many believe a variety of factors have helped from a reduction in the allocation of personal savings committed to property investment, to an increase in desire of the public at large to enjoy more and save less. Due to a variety of factors, economic growth in China was slower when compared to earlier years. Even though global economic growth still had not recovered to pre-crisis levels and as a consequence global consumer confidence was not strong, the sportswear industry in China shows signs of stability. When observing the situation of larger industry players in the industry, it could be found that the inventory level within the industry was closer to normal levels. When discounts were applied to prices, the discounts were of a smaller magnitude and occurred less frequently, compared with the earlier years. Consolidation of the shop network was almost complete and so that the store numbers of each industry participant were stable compared with the previous year. Functionality continued to be appreciated by Chinese consumers, so that the sales of international brand name apparel or footwear continued to grow compared with the previous year. This applied to both athletic and casual outdoor products.

During the current year, the Group recorded a total revenue of US$1,980.6 million representing an increase of 11.4% when compared with last fiscal year's total revenue of US$1,777.2 million. When considering the underlying segments, the revenue derived from the retail business for the period was US$1,964.1 million and when compared with the same period last year was increased by 15.4%. With regards to revenue derived from the brand licensee business segment, this amounted to US$11.7 million and thus fell by 51.3% compared with the amount reported for last year. Lastly considering the segment revenue related to manufacturing, this category amounted to US$4.8 million and saw a decrease of 90.5% compared with the figure for the same period last year. After deducting all operating expenses items, operating profit for the Group came in at US$33.6 million: almost doubled as compared with the operating profit of US$17.3 million reported in the same period last year. Finally, after considering finance costs, share of results of an associate and joint ventures and other gains (losses) arising other than operating activities, a net profit of US$6.5 million was recognized: this was a significant improvement compared with the net loss of US$38.5 million reported in the fiscal year 2013.

The new management team in place since the beginning of year 2013 has continued its efforts to find areas needing improvement and the financial results attest to their ability to correctly identify situations where better choices can be made. The management team is cautiously optimistic that the Group should be able to return to a trend of consistent profit in the medium term. The underlying strength of the business gave management sufficient confidence so that it decided to increase the size of the store network. Once there are signs that operations will be profitable on a consistent basis, management will have the comfort to consider further revenue growth through various organic approaches.

Improving operating efficiency has been the focus of management. Closer communication now exists between the brands and distributors. Looking at different angles, it can be seen that the various international brands now have more refined and selective strategies for reaching out to consumers in China. Management believes in the long run the expertise of the international brands, accumulated knowledge and technique over their many years of global operations, will enable them to secure leading market positions in the China market.

CHAIRMAN'S STATEMENT

Management's efforts spent on improving the information technology and logistics of the Group appear to be yielding fruitful results. Collection of useful information on a standardized basis allows for the proper assessment of performance and the timely identification of exceptions that need to be addressed: this can only be done with appropriate information technology systems implemented. Systems that lead to efficient logistics enable the better management of inventory as well as timely delivery of products. Management continues to experiment with different store formats to optimize the sales per square metre and invests in technology to prepare for an effective e-commerce strategy that should be implemented in the medium to long term.

The Group is very fortunate to be operating in the largest consumer market. The increasing news reports of health risk factors in China, typically identified in the developed world e.g. hypertension, diabetes and high cholesterol, have increased public awareness of the importance of exercising physical activity to help prevent the occurrence of cardiovascular diseases. The Government in China also recognizes that better health through exercising physical activity, is one of the key elements helping to control the resources spent on providing medical health care to the population. Given the recent trend of spending in China, it seems highly probable that the gradual growth in consumer income should correspondingly lead to an increased spending on functional footwear and apparel. Management maintains the Group's focus on high quality functional footwear and apparel: the benefits of this strategy should be self evident in the near future. The 2016 Olympics will be coming soon: given the interest China has in the Olympics, appropriate marketing plan by the major brand customers should transform this interest into spending of purchases of functional apparel and footwear.

I would like to express my appreciation to all shareholders, financial institutions and business partners for their continued support and help. I am grateful for the dedication of the management team at all levels, to enhance the operations of the Group and to seek improvement in general. Better times for the Group are coming and with patience, all stakeholders will be able to benefit from these improvements in operations.

Tsai David, Nai Fung
Chairman

March 20, 2015

MANAGEMENT DISCUSSION AND ANALYSIS

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group has three business segments. The retail business segment encompasses the sales of a broad range of international brand sportswear products including footwear, apparel and accessories, to end customers through our directly operated retail outlets, or on a wholesale basis to sub-distributors, who in turn sell these items to end consumers through their respective retail outlets. As at December 31, 2014, the Group had 4,263 directly operated retail outlets and 2,689 sub-distributor operated retail outlets. Within the network of the regional joint ventures, there were 653 directly operated retail outlets and 357 retail sub-distributors.

For our brand licensee business, the brand licensee agreements we have entered into typically grant us 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. We are the brand licensee for Hush Puppies in Taiwan until December 31, 2015 and for Pony in mainland China and Taiwan until December 31, 2018.

During the year, the Group completed the wind down of its footwear manufacturing business that previously made OEM products for the domestic brands such as Li Ning and 361°.

FINANCIAL REVIEW

For the financial year, the Group recorded revenue of US$1,980.6 million, representing an increase of 11.4% compared with financial year 2013. With regards to gross profit, the Group recorded US$580.6 million which was 13.0% more than the amount recorded the same period last year. When considering operating profit, the Group earned the sum of US$33.6 million which was almost doubled as compared with the previous year. In terms of net profit, profit attributable to owners of the Company in the current year was US$4.6 million, a significant improvement compared with loss attributable to owners of the Company of US$38.7 million recorded in 2013.

REVENUE

Total revenue for the Group increased by 11.4% to US$1,980.6 million for the year ended December 31, 2014 (2013: US$1,777.2 million). The increase occurred due to absolute increase in the retail business's sales that exceeded the decline in sales experienced for the brand licensee business and the manufacturing business.

Retail Business

The retail business reported revenue of US$1,964.1 million, an increase of 15.4% compared with the same period last year. This was primarily due to the increase in the size of the store network as well as the improvement in store efficiency within the distribution network.

Brand Licensee Business

Due to the expiration and early termination of certain brand license agreements in 2013, the brand licensee business in 2014 had shrunk in revenue to US$11.7 million, representing a drop of 51.3% compared with the same period last year.

Manufacturing Business

Revenue derived from manufacturing business declined to US$4.8 million, a decrease of 90.5% compared with last year. The wind down of footwear manufacturing business was completed in the current fiscal year and retaining only a small amount of clothes manufacturing business.

GROSS PROFIT

Gross profit for the Group amounted to US$580.6 million, about 13.0% higher than the same period last year. When looking at margin, the gross profit margin for 2014 was 29.3% and was 0.4 basis point better than the margin in 2013.

MANAGEMENT DISCUSSION AND ANALYSIS

SELLING AND DISTRIBUTION EXPENSES AND ADMINISTRATIVE EXPENSES

Selling and distribution expenses and administrative expenses of the Group for the year were in aggregate US$570.7 million, representing 28.8% of total revenue and a decrease of 0.7 percentage point compared with the same period last year. As a result of improving market conditions, management was able to expand the absolute number of stores in the Group's network by a mid-teens percentage. As a consequence, the aforementioned expenses increased in terms of the absolute amount.

OPERATING PROFIT

The Group's operating profit margin was 1.7% and operating profit was US$33.6 million for the year, almost doubled as compared with the operating profit of US$17.3 million in the financial year 2013.

SHARE OF RESULTS OF AN ASSOCIATE AND JOINT VENTURES

Joint ventures were usually involved in the sales of domestic brand products and thus saw slower improvement in their business as these brands recovered at a lesser pace compared to international brands. As a consequence, discounting activities were still necessary so that the share of results of an associate and joint ventures incurred a loss of US$4.3 million for the financial year. For the same period last year, the loss from these categories was US$5.9 million.

OTHER GAINS (LOSSES) ARISING OTHER THAN OPERATING ACTIVITIES

The Group incurred various gains (losses) from a variety of situations amounting to a net losses of US$2.5 million in the current year. Amongst others, there was impairment losses on loans to joint ventures of US$4.1 million and gain on fair value change on consideration payable for acquisition of business of US$1.6 million. Other losses for the financial year 2013 amounted to US$29.7 million.

PROFIT FOR THE YEAR

Due to the aforementioned reasons, the Group turn loss into profit and recorded net profit of US$6.5 million for the year as compared with net loss of US$38.5 million realized in financial year 2013.

WORKING CAPITAL EFFICIENCY

The average inventory turnover period for the year was 160 days (2013: 177 days). The inventory turnover period was shorter on account of: 1) a change of business strategy to enable lower inventory purchases; 2) the Group's successful implementation of approaches to maintain lower average inventory levels so as to optimize working capital levels. The average trade receivables turnover period was 31 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 24 days (2013: 22 days).

LIQUIDITY AND FINANCIAL RESOURCES

As at December 31, 2014, the Group had cash and cash equivalents of US$43.7 million (2013: US$63.6 million) and total bank borrowings of US$196.5 million (2013: US$267.6 million) and are repayable within one year. Bank borrowings were mainly denominated in Reminbi and so were cash and cash equivalents. The Group's current ratio was 236% (2013: 231%). The gearing ratio (total borrowings to total equity) was 22% (2013: 30%).

MANAGEMENT DISCUSSION AND ANALYSIS

During the year, net cash generated from operating activities was US$92.9 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$23.3 million, of which US$26.3 million was used to purchase of property, plant and equipment. Net cash used in financing activities was US$67.4 million.

CAPITAL EXPENDITURE AND CONTINGENT LIABILITIES

The Group's capital expenditure primarily comprised of payments for purchase of furniture, fixtures and equipment and leasehold improvement. During the year under review, the total capital expenditure was US$28.2 million (2013: US$19.2 million). In addition, the Group had contingent liabilities of US$1.6 million in relation to guarantee given to a bank in respect of banking facilities granted to a joint venture. As at December 31, 2014, the Group had no material capital commitments.

FOREIGN EXCHANGE

The Group conducted its business primarily in the People's Republic of China (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 consolidated statement of comprehensive income as US dollar is used as our reporting currency. As at December 31, 2014, the Group had no significant hedge for the foreign exchange. Despite all that, in view of the volatility of the US dollar against the RMB exchange rate, the Group may enter into FX forward contract or Foreign Currency Options to hedge against its currency risk relating to US dollar bank borrowings when necessary.

BUSINESS MODEL

The operating environment for the Group has stabilized during the course of 2014. Various factors continue to influence the sportswear industry in both the apparel and footwear categories. First, the global economy has started to recover, with North America showing signs of continued modest improvement and with Europe on the other hand are just showing signs of stabilization. The stable state of the global economy means the PRC should begin to see normal demand for its goods and services. The leadership in the PRC has made its expectations and policies explicit, and confidence is gradually returning so that further slowdown in consumption is not expected. The consumption is expected to pick up in the year but could be softer if consumer confidence weakens. The sportswear industry has many participants, but broadly speaking capacity and inventory levels are near normal. Given that capacity and inventory have improved, the industry participants should experience better margins and profitability in the medium to long term.

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. Going forward, the Group will continue to 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 make appropriate estimates of the sell-through capacity for the market to allow for better

MANAGEMENT DISCUSSION AND ANALYSIS

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.

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 about the long-term future of the sports industry as consumers in the PRC are being made more aware of the benefits of physical activity as one of the components for maintaining good health, consumers incomes are rising allowing for more consumption of sportswear and more people are participating in sports. Given that the Olympics and the European Cup being held in 2016 and the enthusiasm for marathon activities held across the PRC and the greater appreciation of the importance of personal fitness, consumers in the PRC will be interested in purchasing more sportswear overtime. Sports events and marketing activities of the brands should be able to foster sales growth for the sportswear industry. Given the close coordination between key international athletic brands and the Group, it should be possible to develop consumer demand. However, both parties need to carefully observe consumer behavior related to the fast retailing brands. Strong product differentiation and segmentation are necessary so that consumers recognize the superior features of “functional” athletic or casual products as compared with fast retailing “fashion” products.

We believe that the Group will see stable operations in 2015 and with more noticeable improvement taking place in 2016.

HUMAN RESOURCES

As at December 31, 2014, the Group had a total of 21,930 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, it 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.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

BIOGRAPHICAL DATA OF DIRECTORS

Mr. TSAI David, Nai Fung

TSAI David, Nai Fung, aged 64, is the Company's Chairman and Non-executive Director since April 2008. He is also the chairman of the Nomination Committee of the Board. Mr. Tsai has been participating in the footwear sector over 40 years. He is also a director of Pou Chen Corporation ("PCC"), San Fang Chemical Industry Co., Ltd. and Elitegroup Computer Systems Co., Ltd. (the shares of these three companies are listed on the Taiwan Stock Exchange Corporation) ("TSEC"). He is also a director of Wealthplus Holdings Limited ("Wealthplus"). He was previously the chairman of Pou Yuen Industrial (Holdings) Limited and the managing director of Yue Yuen Industrial (Holdings) Limited ("Yue Yuen", a public listed company in Hong Kong). Mr. Tsai is a cousin of Ms. Tsai Patty, Pei Chun, the Non-executive director of the Company. PCC, Wealthplus and Yue Yuen are companies which have interest in the shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance.

Ms. TSAI Patty, Pei Chun

TSAI Patty, Pei Chun, aged 35, is a Non-executive Director of the Company since April 2008. She is also a member of the Audit Committee of the Board. Ms. Tsai joined Yue Yuen group in 2002. She serves as an executive director and the managing director of Yue Yuen since January 2005 and June 2013 respectively. She is responsible for the strategic planning and enterprise developments of Yue Yuen group. Ms. Tsai is also the chief executive officer of Pou Chen group and a director of Wealthplus. She was previously a director of Mega Financial Holding Company Limited (shares of which are listed on the TSEC). Ms. Tsai graduated from the Wharton School of the University of Pennsylvania in 2002 with a Bachelor of Science in Economics degree with a concentration in Finance and a College Minor in Psychology. Ms. Tsai is a cousin of Mr. Tsai David, Nai Fung, the Chairman of the Company.

Mr. LI I-nan

LI I-nan, aged 73, is a Non-executive Director of the Company since March 2013. He is also a member of the Remuneration Committee of the Board. Mr. Li has many years of experience in the footwear business. He joined Yue Yuen group in 1992 and was responsible for the financial operations of the group. He ceased to be an executive director of Yue Yuen with effect from March 7, 2015. He is currently a director of Yue Yuen Education Foundation in which he has been involving in the planning and execution of various projects of the Foundation. Mr. Li holds a Bachelor and a Master of Arts degree from National Chengchi University in Taiwan and the University of Southern California, respectively. Mr. Li retired as a non-executive director of Symphony Holdings Limited, a publicly listed company in Hong Kong on June 11, 2014.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. KWAN, Heh-Der

KWAN, Heh-Der, aged 60, is an Executive Director and the Chief Executive Officer of the Company since August 2012. He graduated from the National Taiwan University, Taiwan with a Bachelor of Arts degree. He later obtained a Master of Science degree from the University of Iowa, United States of America after he completed military duties in 1979. Mr. Kwan had worked in different technical and managerial positions of various entities of the AT&T group and was the director of strategy & business development of AT&T China, Beijing; later served as the president of Lucent Technologies Qingdao; and then the chief operating officer of Lucent Technologies China, Beijing. Mr. Kwan also served as the chief operating officer of CEC Industries Ltd., a private industrial lighting company in Illinois, United States of America. Prior to joining the Company, Mr. Kwan was the president and a board director of Tecom Co. Ltd. (東訊股份有限公司), a company listed on the TSEC.

Mr. WU, Pan-Tsu

WU, Pan-Tsu, aged 62, is an Executive Director of the Company since April 2012 and was the Acting Chief Executive Officer during the period from April to August 2012. Mr. Wu graduated from Tamkang University, Taiwan with a Bachelor's degree in Banking and Insurance and started his career at Bank of America Taipei Branch after he retired from military service in 1978. He later worked in ABN-AMRO Bank, Chase Manhattan Bank and BNP PARIBAS in various managerial positions. In 2000, Mr. Wu was invited to join Taishin Financial Holding Co. Ltd. in a position specializing in corporate banking. After serving in the financial services industry for about 25 years, Mr. Wu joined PCC in 2003 and currently serves as executive vice president in charge of finance and investment strategies and daily operations. He is a director of Kleine Developments Ltd. and has been appointed as a director of Elitegroup Computer Systems Co., Ltd. (shares of which are listed on the TSEC) on June 23, 2014. Mr. Wu was a director of First Sino Bank in Shanghai, China.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. CHEN Huan-Chung

CHEN Huan-Chung, aged 59, is an Independent Non-executive Director of the Company since April 2008. He is also the chairman of the Audit Committee and a member of the Nomination Committee and the Remuneration Committee of the Board. Mr. Chen is a partner of Wong Tong & Co., CPAS (萬通聯合會計師事務所), a certified public accountant of Taiwan and a certified securities investment analyst of Taiwan. He is also a Supervisor of PCC. Mr. Chen worked as a deputy manager in E. Sun Bills Finance Corporation of Taiwan (台灣玉山票券金融(股)公司). He became a certified public accountant of Taiwan in 1992 and a certified securities investment analyst of Taiwan in 1990. He received a Bachelor degree from the Department of Industrial Management of National Taiwan University of Science and Technology (formerly known as National Taiwan Institute of Technology) in 1983.

Mr. HSIEH, Wuei-Jung

HSIEH, Wuei-Jung, aged 63, is an Independent Non-executive Director of the Company and the chairman of the Remuneration Committee of the Board since March 2013. He received a Bachelor of Science degree in Nuclear Engineering from the National Tsing Hua University, Taiwan in 1973 and a Master degree of Business Administration, finance from National Taiwan University in 1977. Mr. Hsieh started his career at Bank of America, National Trust and Savings Association, Taipei Branch (renamed to Bank of America N.A. Taipei Branch) as account officer in 1978 and later promoted to vice president and country banking head respectively. From February 1995 to April 2011, he was a vice president and chief finance officer of Vanguard International Semiconductor Corporation, shares of which are traded on the Gre Tai Securities Market in Taiwan ("GTSM"). Mr. Hsieh is currently served as an independent director and the chairman of the compensation committee of Anpec Electronics Corporation and a member of the compensation committee of Motech Industries, Inc. (the shares of these two companies are traded on GTSM). He is also an independent director, chairman of the audit committee and a member of the compensation committee of the board of Xintec Inc., shares of which are traded on the Emerging Stock Market in Taiwan.

Mr. SHAN Xue

SHAN Xue, aged 36, has been appointed as an Independent Non-executive Director of the Company, a member of the Audit Committee and a member of the Nomination committee of the Board on October 1, 2014. He is the director, member of investment committee and general manager of JIC Capital Management (Tianjin) Limited (中建投資本管理(天津)有限公司); and an executive director of ZT Dawn (Beijing) Investment Consultant Limited (中投晨曦(北京)投資顧問有限公司). He is a qualified accountant, a qualified lawyer and a qualified securities practitioner in the PRC. Prior to that, he had been working in Beijing Deheng Law Office (北京德恒律師事務所) and China Jianyin Investment Ltd. (中國建銀投資有限責任公司). Mr. Shan obtained a Master degree from Dongbei University of Finance and Economics (東北財經大學).

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

BIOGRAPHICAL DATA OF SENIOR MANAGEMENT

Mr. CHEN Kuo-Lung

CHEN Kuo-Lung, aged 49, joined the Company as the Chief Financial Officer in August 2013. Mr. Chen graduated with a Bachelor and a Master degree in Business from Department of Accounting and Graduate Institute of Accounting of National Chengchi University in Taiwan, and a Doctorate degree in Administration from School of International Business Administration of Shanghai University of Finance and Economics in 2006. He holds the certificate of Certified Public Accountant of Taiwan. Prior to joining the Group, he held senior management accounting positions with various leading corporations.

Mr. LIN Tien Te

LIN Tien Te, aged 57, was appointed as the Vice President of the Brand Licensing Business Department in April, 2014. Mr. Lin holds a Bachelor degree in Diplomacy from National Chengchi University, Taiwan and a Master degree in Business Management from Yuan Ze University, Taiwan. He has extensive experience in the sports apparel product development and business operations both in Taiwan and the PRC.

Mr. WANG Jun

WANG Jun, aged 46, was appointed as the Vice President of Brand and Merchandizing Management Department in April, 2014. Mr. Wang graduated from the Capital University of Economics and Business, Beijing with a diploma in marketing. He has extensive experience and achievements in strategic planning, sales marketing, product branding, and retail operation.

DIRECTORS' REPORT

The directors (the "Directors" or the "Board") of Pou Sheng International (Holdings) Limited (the "Company") have pleasure in presenting the Group's annual report and the audited consolidated financial statements for the year ended December 31, 2014.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of the Group are retailing of sportswear and distribution of licensed products.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended December 31, 2014 are set out in the consolidated income statement on page 48 of the annual report.

No interim dividend was paid to the shareholders of the Company during the year.

The Directors do not recommend the payment of a final dividend for the year.

SUBSIDIARIES, ASSOCIATE AND JOINT VENTURES

Details of the principal subsidiaries, an associate and joint ventures of the Group as at December 31, 2014 are set out in Notes 38, 15 and 16 to the consolidated financial statements, respectively.

SHARE CAPITAL

Details of the share capital of the Company are set out in Note 27 to the consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in Note 11 to the consolidated financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

As at December 31, 2014, the Company's reserves available for distribution consisted of contributed surplus of approximately US$166.0 million (at December 31, 2013: US$166.0 million) less accumulated losses of approximately US$33.1 million (at December 31, 2013: US$23.7 million).

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

(a) it is, or would after the payment be, unable to pay its liabilities as they become due; or

(b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

DIRECTORS' REPORT

DIRECTORS

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

Executive Directors ("EDs")

Kwan, Heh-Der (Chief Executive Officer)
Wu, Pan-Tsu

Non-executive Directors ("NEDs")

Tsai David, Nai Fung (Chairman)
Tsai Patty, Pei Chun
Li I-nan

Independent Non-executive Directors ("INEDs")

Chen Huan-Chung	
Hsieh, Wuei-Jung	
Shan Xue	(appointed on October 1, 2014)
Chang Li Hsien, Leslie	*(resigned with effect from October 1, 2014)*

In accordance with the Company's Bye-laws, Mr. Tsai David, Nai Fung, Mr. Wu, Pan-Tsu, Mr. Li I-nan and Mr. Shan Xue will retire from office at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

All NEDs (including INEDs) are appointed for a specific term of three years. All Directors are subject to the retirement by rotation in accordance with the provision of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and the Company's Bye-laws.

No Director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and senior management of the Group are set out on pages 16 to 19.

DIRECTORS' REPORT

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

As at December 31, 2014, the interests and short positions of the Company's Directors and chief executives and their associates in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures 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 Rules, were as follows:

Long position in shares

(a) The Company

Ordinary shares of HK$0.01 each of the Company

		Number of ordinary shares					Percentage
Name of Director	Capacity	Personal interest	Family interest	Corporate interest	Other interest	Total	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	19,523,000	-	-	-	19,523,000	0.36%
Kwan, Heh-Der	Beneficial owner	1,200,000[1]	-	-	-	1,200,000	0.02%

Note:

1. Awarded shares granted to Mr. Kwan, Heh-Der pursuant to a share award scheme of the Company, which are subject to certain vesting conditions, remained unvested.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (Continued)

Long position in shares (Continued)

(b) Associated Corporation – Yue Yuen

Ordinary shares of HK$0.25 each of Yue Yuen

		Number of ordinary shares					Percentage
Name of Director	Capacity	Personal interest	Family interest	Corporate interest	Other interest	Total	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, remained unvested.

Save as disclosed above, none of the Directors or the chief executives had any interests or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations as at December 31, 2014 were 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 pursuant to the Model Code.

DIRECTORS' REPORT

SHARE OPTION SCHEME

The Company recognises the importance of offering incentive 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 year ended December 31, 2014.

During the year ended December 31, 2014, the Group recognised a net expense of US$1,000 as equity-settled share-based payments in relation to the Share Option Scheme.

SHARE OPTION SCHEME (Continued)

Pursuant to the Share Option Scheme, movements in share options during the year are listed below:

Date of grant	Exercise price HK$	Exercisable period	Balance at January 1, 2014	Granted during the year	Exercised during the year	Lapsed/ cancelled during the year	Balance at December 31, 2014
			Number of share options				
Employees/Consultants							
21.01.2010	1.62	21.01.2011-20.01.2018	2,895,450	-	-	-	2,895,450
		21.01.2012-20.01.2018	2,895,450	-	-	-	2,895,450
		21.01.2013-20.01.2018	5,790,900	-	-	-	5,790,900
		21.01.2014-20.01.2018	7,721,200	-	-	(400,000)	7,321,200
20.01.2011	1.23	20.01.2012-19.01.2019	5,977,500	-	-	-	5,977,500
		20.01.2013-19.01.2019	5,977,500	-	-	-	5,977,500
		20.01.2014-19.01.2019	5,977,500	-	-	(477,500)	5,500,000
		20.01.2015-19.01.2019	5,977,500	-	-	(1,177,500)	4,800,000
07.03.2012	1.05	07.03.2013-06.03.2020	375,000	-	-	-	375,000
		07.03.2014-06.03.2020	375,000	-	-	-	375,000
		07.03.2015-06.03.2020	375,000	-	-	-	375,000
		07.03.2016-06.03.2020	375,000	-	-	-	375,000
Sub-total			44,713,000	-	-	(2,055,000)	42,658,000
Former Employees							
21.01.2010	1.62	21.01.2011-20.01.2018	1,605,000	-	-	-	1,605,000
		21.01.2012-20.01.2018	1,605,000	-	-	-	1,605,000
		21.01.2013-20.01.2018	999,000	-	-	-	999,000
		21.01.2014-20.01.2018	-	-	-	-	-
20.01.2011	1.23	20.01.2012-19.01.2019	5,760,000	-	-	-	5,760,000
		20.01.2013-19.01.2019	2,010,000	-	-	-	2,010,000
		20.01.2014-19.01.2019	-	-	-	-	-
		20.01.2015-19.01.2019	-	-	-	-	-
07.03.2012	1.05	07.03.2013-06.03.2020	375,000	-	-	-	375,000
		07.03.2014-06.03.2020	-	-	-	-	-
		07.03.2015-06.03.2020	-	-	-	-	-
		07.03.2016-06.03.2020	-	-	-	-	-
Sub-total			12,354,000	-	-	-	12,354,000
Grand total			57,067,000	-	-	(2,055,000)	55,012,000

Details of the Share Option Scheme are also set out in Note 33 to the consolidated financial statements.

DIRECTORS' REPORT

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.

Pursuant to the Share Award Scheme, movements in share awards during the year were listed below:

			Number of share awards				
	Date of grant	Vesting date	Balance at January 1, 2014	Granted during the year	Vested during the year	Lapsed/ cancelled during the year	Balance at December 31, 2014
Director							
Kwan, Heh-Der	01.09.2014	01.09.2017	-	1,200,000	-	-	1,200,000
Sub-total			-	1,200,000	-	-	1,200,000
Employees							
In aggregate	01.09.2014	01.09.2017	-	11,000,000	-	(700,000)	10,300,000
Sub-total			-	11,000,000	-	(700,000)	10,300,000
Grand total			-	12,200,000	-	(700,000)	11,500,000

During the year ended December 31, 2014, the Group recognised US$82,000 as equity-settled share-based payments in the consolidated income statement under the Share Award Scheme. Details of the Share Award Scheme are also set out in Note 33 to the consolidated financial statements.

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

Save as disclosed in the Share Option Scheme and Share Award Scheme sections, at no time during the year 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.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at December 31, 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, 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	(b)	Interest of a controlled corporation	3,295,923,560	61.27%
PCC	(b)	Interest of a controlled corporation	3,295,923,560	61.27%

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.

Mr. Li I-nan, a director of the Company, ceased to be a director of Yue Yuen with effect from March 7, 2015.

Save as disclosed above, as at December 31, 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.

DIRECTORS' REPORT

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Ms. Tsai Patty, Pei Chun, is a director of Yue Yuen. Mr. Li I-nan ceased to be a director of Yue Yuen with effect from March 7, 2015. In addition to directorship, Mr. Tsai David, Nai Fung and Ms. Tsai Patty, Pei Chun are beneficiaries of trusts which hold shares in Yue Yuen. Mr. Kwan, Heh-Der is interested in share awards of 45,000 shares in Yue Yuen which are subject to certain vesting conditions and remained unvested. Yue Yuen is the Company's controlling shareholder and whose principal activities are OEM/ODM footwear manufacturing business.

On December 16, 2013, the Group and Yue Yuen group entered into an equity transfer agreement and an equipment transfer agreement pursuant to which the Group disposed of two subsidiaries' equity interests and equipment of its footwear manufacturing business (the "Disposal") to Yue Yuen group. As the Company and Yue Yuen are separate listing entities run by separate and independent management, the Directors believe that the Company is capable of carrying on its business independently of, and at arm's length from, Yue Yuen. In any event, having the Disposal been completed on January 1, 2014, it is expected that there will not be any competition between the Group and Yue Yuen group in terms of footwear manufacturing business.

Yue Yuen has an investment in Symphony Holdings Limited ("Symphony") whose shares are listed on the main board of the Stock Exchange. The principal activities of Symphony and its subsidiaries ("Symphony Group") included the retail and wholesale business of apparel and footwear in the PRC. Mr. Li I-nan, who is a director of the Company, was a director of Symphony (retired on June 11, 2014). Mr. Li has confirmed that he has an interest in the shares of Symphony. Mr. Liu Hong-chih, George who is a director of Yue Yuen, has been appointed as a director of Symphony with effect from August 20, 2014. As Symphony is and has been operating under separate and independent management, the Directors believe that the Company is capable of carrying on its business independently of, and at arm's length from, Symphony.

Save as described above, as at December 31, 2014, none of the Directors had any interest in a business which may compete with that of the Group and which is required to be disclosed pursuant to Rule 8.10 of the Listing Rules.

DIRECTOR'S INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contract of significance, to which the Company or any of its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' REPORT

UPDATE ON DIRECTORS' INFORMATION

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes in information of Directors subsequent to the publication of the Company's 2014 interim report are set out below:

1. Mr. Chang Li Hsien, Leslie resigned as an INED of the Company and ceased to be the member of each of the Audit Committee and the Nomination Committee of the Board with effect from October 1, 2014.

2. Mr. Shan Xue has been appointed as an INED of the Company and the member of each of the Audit Committee and the Nomination Committee of the Board with effect from October 1, 2014.

3. Mr. Li I-nan ceased to be a director of Yue Yuen with effect from March 7, 2015.

4. Mr. Hsieh, Wuei-Jung has been appointed as a member of the compensation committee of Motech Industries, Inc. on April 16, 2014 and has been redesignated from a member to chairman of the compensation committee of Anpec Electronics Corporation with effect from August 8, 2014.

5. Details of changes in the Directors' remuneration are set out in Note 9 to the consolidated financial statements.

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

In accordance with the requirements under Rules 13.18 and 13.21 of the Listing Rules, the Directors reported below details of loan facilities of the Group, which exist at any time during the year and include conditions relating to specific performance of the controlling shareholder of the Company. The circumstances requiring a disclosure under Rule 13.18 of the Listing Rules have ceased as at the end of the reporting period. Nevertheless, for good corporate governance purpose, the Company makes the disclosure below.

On March 26, 2013, the Company entered into a facility agreement and a general agreement in respect of a two-year term loan of up to US$50 million that is relevant to the operations of the Company. The terms of the loan required that: Yue Yuen (i) owns beneficially, directly or indirectly, more than 50% of the Company; or (ii) has the ability to direct or cause the direction of the management of the Company. Such covenants had been removed from the terms of the loan with effect from November 20, 2014.

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 a one-year term loan of up to US$10 million that is relevant to the operations of the Company. The terms of the loan required that the Company remains a subsidiary of Yue Yuen. A supplemental agreement had been entered to renew the loan for a further one year, the details of which set out in the announcement of the Company dated August 18, 2014. Such covenants had been removed from the terms of the loan with effect from December 30, 2014.

DIRECTORS' REPORT

CONNECTED TRANSACTIONS

The Group has entered into the following connected transactions in 2013 which have been completed during the year:

Equity Transfer Agreement

On December 16, 2013, Brightup Group Limited ("Brightup Group"), an indirect wholly-owned subsidiary of the Company entered into an agreement (the "Equity Transfer Agreement") with Madi Avenue Limited ("Madi Avenue"), pursuant to which Brightup Group has agreed to sell and Madi Avenue has agreed to purchase 100% equity interest in each of Huaibin Yue-shen and 鍾祥裕盛體育用品有限公司 (Zhong Xiang Yue-Shen Sporting Goods Co., Ltd.), both of which being indirect wholly-owned subsidiaries of the Company, at an aggregate consideration of RMB33,399,700, subject to adjustments.

Madi Avenue is a company established in Hong Kong and an indirect wholly-owned subsidiary of Yue Yuen, and is therefore a connected person of the Company under the Listing Rules. Accordingly, the Equity Transfer Agreement constitutes a connected transaction of the Company under the Listing Rules. Details of the transaction have been set out in the announcement dated December 16, 2013 of the Company.

The transactions have been completed on January 1, 2014 with final consideration of RMB31,631,570.42 (equivalent to approximately US$5,217,000).

All the terms of the above transactions are on normal commercial terms, fair and reasonable and in the interests of the Company and its shareholders as a whole after arm's length negotiations.

CONTINUING CONNECTED TRANSACTIONS

During the year, the Group entered into the following transactions which constituted continuing connected transactions for the Company under Chapter 14A of the Listing Rules:

Purchase of footwear products from Yue Yuen

On August 29, 2014, the Company entered into a framework agreement with Yue Yuen pursuant to which the Company may, through its subsidiaries, joint ventures and associate (the "PS Sub Group"), purchase from Yue Yuen's subsidiaries, joint ventures and associates (the "YY Sub Group") and/or any factories operated and/or appointed by members of the YY Sub Group (the "YY Factories") footwear products for the period from April 7, 2014 to December 31, 2016 subject to the following annual caps:

Period	Annual Cap
April 7, 2014 to December 31, 2014	RMB46,000,000
January 1, 2015 to December 31, 2015	RMB71,000,000
January 1, 2016 to December 31, 2016	RMB85,000,000

The annual caps for each of the aforesaid periods are determined after taking into account (a) the unit price of the footwear products; (b) the historical purchase amounts of the footwear products; and (c) the expected increment of the purchase amounts of the footwear products from members of the YY Sub Group and/or the YY Factories. Details of the transactions have been set out in the announcement dated August 29, 2014 of the Company.

During the year ended December 31, 2014, the amount of orders placed by PS Sub Group with YY Factories was approximately US$7.4 million (equivalent to approximately RMB45.4 million).

Annual Review of Continuing Connected Transactions

The INEDs of the Company have reviewed the above continuing connected transactions and confirmed that the transactions have been entered into:

(a) in the ordinary and usual course of business of the Company;
(b) on normal commercial terms; and
(c) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company's auditor was engaged to report on the above continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued its unqualified letter containing its findings and conclusions in respect of the above continuing connected transactions in accordance with Rule 14A.56 of the Listing Rules.

DIRECTORS' REPORT

RELATED AND CONNECTED PARTY TRANSACTIONS

Details of related and connected party transactions for the year are set out in Note 35 to the consolidated financial statements.

Save as disclosed herein and above under the headings "connected transactions" and "continuing connected transactions", the Company has not entered into other transactions with its connected parties which are required to be disclosed in this annual report in accordance with Chapter 14A of the Listing Rules.

The Company confirms that it has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules in so far as they are applicable.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

PENSION SCHEME

The employees employed in the PRC are members of the state-managed retirement benefit schemes operated by the PRC government. The PRC subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefit schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefit schemes is to make the required contributions under the schemes.

The Group also operates a Mandatory Provident Fund Scheme ("MPF Scheme") for all its qualifying employees in Hong Kong. The assets of the MPF Schemes are held separately from those of the Group in funds under the control of trustees. Under the rule of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rate specified in the rules.

The Group contributed approximately US$20.2 million to the above-mentioned schemes for the year ended December 31, 2014.

MAJOR CUSTOMERS AND SUPPLIERS

Aggregate sales attributable to the Group's five largest customers were less than 30% of the Group's total sales.

Aggregate purchases attributable to the Group's largest and five largest suppliers were 49% and 97% of the Group's total purchases, respectively.

At no time during the year did a director, an associate of a director or a shareholder of the Company (which to the knowledge of the Director holds more than 5% of the Company's share capital) have an interest in any of the Group's five largest suppliers.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year, 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.

EMOLUMENT POLICY

The Group's emolument policy for employees is set up by the Board on the basis of their merit, qualifications and competence.

The emoluments of the Directors are recommended by the Remuneration Committee and are decided by the Board, having regard to the Group's operating results, individual performance and comparable market statistics.

The Company has adopted the Share Option Scheme and Share Award Scheme which can be used to motivate and reward its Directors and eligible employees. Details of which are set out in Note 33 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws, or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended December 31, 2014.

AUDITOR

Messrs. Deloitte Touche Tohmatsu will retire and a resolution for its re-appointment as auditor of the Company will be proposed at the forthcoming annual general meeting of the Company.

On behalf of the Board

Tsai David, Nai Fung
Chairman
Hong Kong
March 20, 2015

CORPORATE GOVERNANCE REPORT

The Board and the management of the Company recognise the importance of maintaining good corporate governance practices and procedures, hence corporate transparency and accountability can be practised. The Company believes that good corporate governance provides a framework that is essential for effective management, a healthy corporate culture, successful business growth and thereby enhancing shareholders' value. The Board is committed to achieving a high standard of corporate governance and to leading the Group to grow in an efficient manner directed by the Group's vision and mission.

CORPORATE GOVERNANCE PRACTICES

During the year ended December 31, 2014, the Company has applied the principles of and has complied with all code provisions contained in the Corporate Governance Code set out in Appendix 14 of the Listing Rules.

BOARD OF DIRECTORS

The Board

Currently, the Board consists of two EDs, three NEDs and three INEDs. The biographical details of the Directors are set out in Biographical Details of Directors and Senior Management section on pages 16 to 19. Save as disclosed in the section, to the best knowledge of the Company, there is no other financial, business or family relationship among the members of the Board.

The Board has overall responsibility in formulating the strategic development of the Group, monitoring and controlling the Group's operation and financial performance, and performing the corporate governance duties.

The management is delegated with the authority and responsibility for the day-to-day operations of the Group under the leadership and supervision of the Chief Executive Officer. The Chief Executive Officer, working with the management team, is responsible for overseeing and managing the businesses of the Group, including the implementation of policies and strategies delegated and adopted by the Board and assuming full accountability to the Board for the operations of the Group.

Board meetings are scheduled to be held at approximately quarterly intervals and as required by business needs to discuss and review the overall strategy as well as the operation and financial performance of the Group and other duties of the Board. The annual meeting schedule is made available to Directors in advance. At least 14 days' notice of a regular board meeting is given to all Directors who are given an opportunity to include matters for discussion in the agenda. Agenda and Board papers are normally sent to all Directors at least 3 days before each meeting to enable them to make informed decisions with adequate data. All Directors have full access to information of the Group and are able to obtain independent professional advice in performing their duties at the expense of the Company in appropriate circumstances.

BOARD OF DIRECTORS (Continued)

The Board (Continued)

The Company Secretary is responsible to keep minutes of all Board and committees meetings. Draft minutes are circulated to all Directors or committee members for comment in a timely manner and final version for their records. The minutes/resolutions of the Board and the committees are available for inspection by Directors.

The table below sets out the number of meetings of the Board and its committees, individual attendance by the Board and committee members at these meetings and the annual general meeting during the year:

Name of Directors	Board Meetings	Audit Committee Meetings	Nomination Committee Meetings	Remuneration Committee Meetings	Annual General Meeting
Executive Directors					
Kwan, Heh-Der	7/7				1/1
Wu, Pan-Tsu	7/7				0/1
Non-executive Directors					
Tsai David, Nai Fung (Chairman)	7/7		3/3		1/1
Tsai Patty, Pei Chun	7/7	4/4			1/1
Li I-nan	7/7			4/4	1/1
Independent Non-executive Directors					
Chen Huan-Chung	7/7	4/4	3/3	4/4	1/1
Hsieh, Wuei-Jung	7/7			4/4	1/1
Shan Xue[1]	2/2	1/1	0/0		0/0
Chang Li Hsien, Leslie[2]	5/5	3/3	3/3		1/1

Notes:

1. Mr. Shan Xue has been appointed as Director on October 1, 2014.

2. Mr. Chang Li Hsien, Leslie has resigned as Director with effect from October 1, 2014.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS (Continued)

Chairman and Chief Executive Officer

The Chairman of the Board is Mr. Tsai David, Nai Fung and the Chief Executive Officer is Mr. Kwan, Heh-Der.

The roles of the Chairman and Chief Executive Officer are separate. The Chairman is responsible for the effective running of the Board. The Chief Executive Officer is responsible for overseeing the overall strategies, planning and day-to-day operations and management of the Group.

Non-executive Directors and Independent Non-executive Directors

All NEDs (including INEDs) are appointed for a specific term of three years. All Directors including INEDs are subject to the retirement by rotation at least every three years and re-election in accordance with the provision of the Listing Rules and the Company's Bye-laws.

At all times during the year ended December 31, 2014, the Company has complied with the requirements under Rule 3.10 and 3.10A of the Listing Rules relating to the appointment of at least three INEDs, representing at least one third of the Board and with at least one of them possessing appropriate professional accounting and financial management expertise required under the Listing Rules.

The Company has received from each of the INEDs an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and the Company considers that all INEDs are independent.

Appointment and Re-election of Directors

The appointment of a new Director is made on the recommendation of the Nomination Committee and the Board or by the shareholders of the Company (the "Shareholders") in general meeting. During the year, based on the recommendations by the Nomination Committee, the Board appointed Mr. Shan Xue as an INED on October 1, 2014.

All Directors appointed by the Board are subject to re-election at the first general meeting after their appointments. All Directors are subject to retirement by rotation at least every three years and re-election in accordance with the provision of the Listing Rules and the Company's Bye-laws. At least one-third of Directors shall retire from office every year at the Company's annual general meeting. Accordingly, Ms. Tsai Patty, Pei Chun, Mr. Chen Huan-Chung and Mr. Chang Li Hsien, Leslie (resigned on October 1, 2014) retired and were re-elected Directors at the annual general meeting of the Company held on May 30, 2014 (the "2014 AGM").

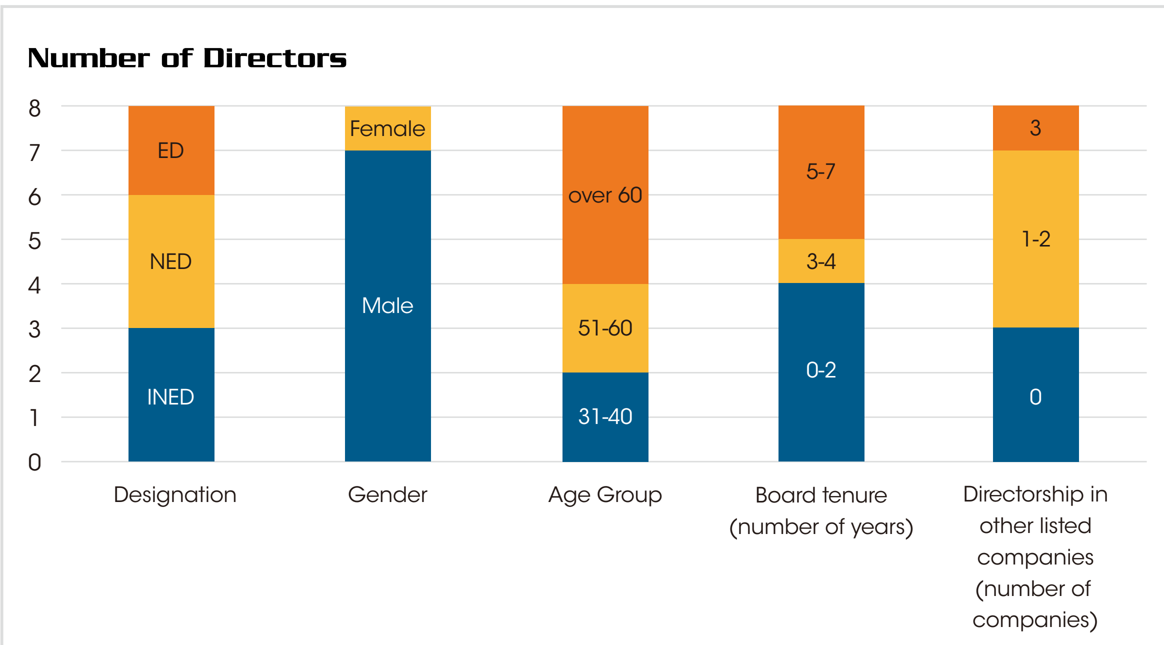
BOARD OF DIRECTORS (Continued)

Board Diversity

On August 13, 2013, the Board has adopted a Board Diversity Policy. The Company sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. All Board appointment will be based on meritocracy, and candidates will be considered against objective criteria including but not limited to gender, age, cultural and education background, professional experience, skills, knowledge and length of service.

The Nomination Committee would review the Board Diversity Policy, the measurable objectives and monitor the implementation of the Board Diversity Policy.

An analysis of the Board's current composition based on the measurable objectives is set out below:



CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS (Continued)

Directors' Training

Each newly appointed director is provided with a tailored induction to ensure that he or she has a proper understanding of the operations and business of the Group and is fully aware of his or her responsibilities under applicable legal requirements and the business and corporate governance policies of the Group.

The Company continuously updates the Directors on the Group's business and the latest developments regarding the Listing Rules and other applicable regulatory requirements, to ensure compliance and enhance their awareness of good corporate governance practices.

Pursuant to Code Provision A.6.5 of the Corporate Governance Code, the Directors should participate in continuous professional development to develop and refresh their knowledge and skills. According to the records provided by the Directors, the Directors had participated in the following trainings during the year:

Name of Directors	Attending briefings/seminars/ conferences/forums	Reading/ studying training or other materials
Executive Directors		
Kwan, Heh-Der	✓	✓
Wu, Pan-Tsu	✓	✓
Non-executive Directors		
Tsai David, Nai Fung	✓	✓
Tsai Patty, Pei Chun	✓	✓
Li I-nan	✓	✓
Independent Non-executive Directors		
Chen Huan-Chung	✓	✓
Hsieh, Wuei-Jung	✓	✓
Shan Xue		✓

BOARD COMMITTEES

The Board has established the Audit Committee, the Remuneration Committee and the Nomination Committee (collectively the "Board Committees") to oversee various aspects of the Group's affairs.

Audit Committee

The Audit Committee has been in place since May 2008 with specific written terms of reference, which are available on the websites of the Stock Exchange and the Company.

The Audit Committee currently consists of three NEDs (the majority of whom are independent): Mr. Chen Huan-Chung (Chairman), Ms. Tsai Patty, Pei Chun and Mr. Shan Xue. The appointment of Mr. Shan Xue took effect on October 1, 2014 while Mr. Chang Li Hsien, Leslie resigned from the committee on the same day. Mr. Chen Huan-Chung is an INED possessing the appropriate professional accounting and financial management expertise required under the Listing Rules.

The primary functions of the Audit Committee are, inter alia, to assist the Board in fulfilling its responsibilities, to maintain appropriate relationship with external auditors, to review the Group's financial control, internal control and risk management, to review the annual and interim reports and other financial information provided by the Company to its Shareholders, the public and others, and to deal with other matters within the scope of its terms of reference.

The Audit Committee is responsible for considering the appointment of the external auditors and reviewing any non-audit functions performed by the external auditors, including whether such non-audit functions could lead to any potential material adverse effect on the Group.

The following is a summary of works performed by the Audit Committee during the year:

- reviewed and recommended the quarterly, interim and annual financial statements of the Group to the Board for approval;
- reviewed and discussed the various audit issues as reported by the external auditors;
- reviewed the internal control reports prepared by the Company's Internal Audit Department covering the findings and recommendations on the effectiveness of the risk management and internal control systems; and
- monitored the engagement, services provided by and remuneration of the external auditors and its independence.

The Audit Committee held four meetings during the year. The attendance record of the Audit Committee meeting is set out in the table under Board of Directors section.

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES (Continued)

Remuneration Committee

The Remuneration Committee has been in place since May 2008 with specific written terms of reference, which are available on the websites of the Stock Exchange and the Company.

The Remuneration Committee currently consists of three NEDs (the majority of whom are independent): Mr. Hsieh, Wuei-Jung (Chairman), Mr. Chen Huan-Chung and Mr. Li I-nan.

The primary functions of the Remuneration Committee include making recommendations to the Board on remuneration policy, structure and remuneration packages of the Directors and senior management of the Group and other related matters. In recommendation of the remuneration package of Directors, the Remuneration Committee considers the qualifications and experience of each Directors and also remuneration policy of other comparable listed companies of similar business and size, time commitment and responsibilities of the Directors, employment conditions of the Company and its subsidiaries and the desirability of performance-based remuneration. The Remuneration Committee also ensures that the levels of remuneration should be sufficient to attract and retain the Directors to run the Company successfully but would avoid paying more than necessary for this purpose. No Directors or any of their respective associates are involved in determining their own remunerations.

The following is a summary of the work performed by the Remuneration Committee during the year:

- reviewed and recommended the remuneration of Directors for the year ended December 31, 2013 to the Board for approval;
- recommended the remuneration packages of individual Directors and senior management newly appointed during the year to the Board for approval;
- reviewed and recommended the revised Remuneration Policy to the Board for approval;
- reviewed the effectiveness of the Remuneration Committee and its terms of reference;
- recommended the adoption of Share Award Scheme to the Board for approval;
- recommended the grant of share awards to the Board for approval; and
- reviewed the Share Option Scheme and Share Award Scheme of the Company.

The Remuneration Committee held four meetings during the year. The attendance record of the Remuneration Committee meeting is set out in the table under Board of Directors section.

BOARD COMMITTEES (Continued)

Nomination Committee

The Nomination Committee has been in place since December 2011 with specific written terms of reference, which are available on the websites of the Stock Exchange and the Company.

The Nomination Committee currently consists of three NEDs (the majority of whom are independent): Mr. Tsai David, Nai Fung (Chairman), Mr. Chen Huan-Chung and Mr. Shan Xue. The appointment of Mr. Shan Xue took effect on October 1, 2014 while Mr. Chang Li Hsien, Leslie resigned from the committee on the same day.

The primary functions of the Nomination Committee are to assist the Board in identification of suitable individuals qualified to become Board members, review the structure, size, composition and diversity of the Board and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy.

The following is a summary of the work performed by the Nomination Committee during the year:

- identified and recommended the appointments of individual Directors and senior management to the Board for approval;
- assessed the independence of INEDs;
- reviewed the retirement and nominated the re-election of retiring Directors at the 2014 AGM;
- reviewed the structure, size, composition and diversity of the Board; and
- reviewed the Board Diversity Policy and the measurable objectives.

The Nomination Committee held three meetings during the year. The attendance record of the Nomination Committee meeting is set out in the table under Board of Directors section.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE FUNCTION

The Board has adopted a Statement of Policy on Corporate Governance (as revised on August 13, 2013) and is collectively responsible for performing the corporate governance duties including:

(a) to develop, review and implement the Company's policies and practices on corporate governance;

(b) to review and monitor the training and continuous professional development of directors and senior management;

(c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors;

(e) to review the Company's compliance with the Corporate Governance Code and disclosure in the Corporate Governance Report; and

(f) to develop, review and monitor the implementation of the Shareholders' communication policy to ensure its effectiveness.

INTERNAL CONTROLS AND RISKS MANAGEMENT

The Board has overall responsibilities for introducing and continuously maintaining sound and effective internal control system of the Group and reviewing its adequacy and effectiveness. The Board has delegated to the management with defined structure and limits of authority, to conduct reviews on and maintenance of all material controls including proper financial and accounting records, operational and compliance and risk management functions as well as the implementation of the internal control systems to ensure compliance with relevant legislations and regulations.

The Company has established its own Internal Audit Department for reviewing the effectiveness of the Group's internal control system. The Internal Audit Department reports on reviews of the business processes and activities, including action plans to address any identified control weaknesses to the Audit Committee and the Board.

During the year, the Company had engaged Messrs. Deloitte Touche Tohmatsu to conduct an assessment of the Group's procedures and monitoring mechanism for connected transaction/continuing connected transaction and due diligence of merger and acquisition. Its findings and recommendations concerning improvements to controls have been reported to the Board. The Board has adopted the revised Reporting and Monitoring Policy on Connected Transactions. Training has been given to relevant staff members to raise awareness on regulatory requirements and foster effective internal controls. In respect of the year ended December 31, 2014, the Board considers the internal control systems remain effective and adequate.

AUDITORS' REMUNERATION

During the year ended December 31, 2014, the remuneration paid or to be payable to Messrs. Deloitte Touche Tohmatsu, the Company's external auditor, in respect of audit services rendered are approximately US$542,000 and in respect of non-audit services rendered are approximately US$199,000. The non-audit services fees include the review of interim financial statements.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities with respect to the financial statements of the Group and ensure that they are prepared in accordance with statutory requirements and applicable accounting standards. The Directors also ensure the publication of the financial statements of the Group in a timely manner.

A statement by the external auditor of the Company, Messrs. Deloitte Touche Tohmatsu, with regard to their reporting responsibilities on the Group's financial statements is set out in the Independent Auditor's Report on pages 46 to 47.

The Directors confirm that, to the best of their knowledge, information and belief after having made all reasonable enquiries, they are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules. Following specific enquiry by the Company, all Directors have confirmed that they have complied with the required standards as set out in the Model Code during the year ended December 31, 2014.

The Company has also established and adopted internal guidelines for securities transactions by relevant employees (the "Employees Guidelines") which are no less exacting terms than the Model Code. Specified employees who are likely to be in possession of unpublished inside information related to the Company and its securities must comply with the Employees Guidelines.

CORPORATE GOVERNANCE REPORT

SHAREHOLDERS' RIGHTS

1. Procedures by which Shareholders may convene a special general meeting

1.1 Shareholders holding not less than one-tenth of the paid-up capital of the Company as at the date of the deposit of the requisition carrying the right of voting at general meetings of the Company may require the Board to convene a special general meeting by depositing a requisition at the registered office of the Company for the attention of the Board or the Company Secretary.

1.2 The requisition must specify the purposes of the meeting, signed by the requisitionists and may consist of several documents in like form each signed by one or more of those requisitionists.

1.3 The signatures and the requisition will be verified by the Company's share registrars. The Board will proceed to convene a special general meeting for the transaction of any business specified in the requisition within 21 days from the date of deposit of such requisition if it has been validly raised.

1.4 If the Board does not within 21 days from the date of the deposit of a valid requisition, proceed duly to convene such meeting, the requisitionists, or any of them representing more than one half of the total voting rights of all of them, may themselves convene a meeting, but any meeting so convened shall not be held after the expiration of three months from the said date.

2. Procedures for putting forward enquiries to the Board

2.1 Shareholders may put forward enquiries to the Board through the Company Secretary, whose contact details are as follows:

The Company Secretary
Pou Sheng International (Holdings) Limited
Suites 3106-09, 31/F., Tower 6, The Gateway
9 Canton Road, Tsim Sha Tsui, Kowloon, Hong Kong

Tel. No.: +852 3182 5800
Fax No.: +852 3182 5808

3. Procedures for putting forward proposals at Shareholders' meeting

3.1 In general, subject to paragraph 3.2 below, no resolution may be proposed at a Shareholders' meeting (whether it is a special general meeting or an annual general meeting) if such resolution is not included in the notice convening the general meeting. However, if the proposal is to amend an existing resolution set out in the notice convening the general meeting and such amendment is within the scope of the notice, such amendment may be made if approved by the Shareholders by ordinary resolution.

SHAREHOLDERS' RIGHTS (Continued)

3. Procedures for putting forward proposals at Shareholders' meeting (Continued)

3.2 On the requisition in writing of (i) either any number of Shareholders representing not less than one-twentieth of the total voting rights of all the Shareholders having at the date of the requisition a right to vote at the meeting to which the requisition relates, or (ii) not less than 100 Shareholders, the Company shall be under a duty to:

(a) give to Shareholders entitled to receive notice of the next annual general meeting notice of any resolution which may properly be moved and is intended to be moved at that meeting; and/or

(b) circulate to Shareholders entitled to have notice of any general meeting sent to them any statement of not more than 1,000 words with respect to the matter referred to in any proposed resolution or the business to be dealt with at that meeting.

3.3 Notice of any such intended resolution under paragraph 3.2 shall be given, and any such statement shall be circulated, to Shareholders entitled to have notice of the meeting sent to them by serving a copy of the resolution or statement on each such Shareholder in any manner permitted for service of notice of the meeting, and notice of any such resolution shall be given to any other Shareholders by giving notice of the general effect of the resolution in any manner permitted for giving him notice of meetings of the Company.

3.4 The requisition under paragraph 3.2 must be signed by the requisitionists and deposited at the registered office of the Company (i) in the case of a requisition requiring notice of a resolution, not less than 6 weeks before the meeting; and (ii) in the case of any other requisition, not less than 1 week before the meeting.

INVESTOR RELATIONSHIP AND COMMUNICATION

The Company endeavors to maintain good relationship with the Shareholders and potential investors. To ensure effective ongoing dialogue with the Shareholders, the Board has adopted the Shareholders Communication Policy on March 5, 2012 which will be regularly reviewed to ensure its effectiveness.

Information in relation to the Group is disseminated to the Shareholders in a timely manner through a number of communication channels including interim and annual reports, announcements and circulars published in accordance with the Listing Rules. Such published documents, together with the latest corporate information and news, are also available on the Company's website.

Shareholders are also encouraged to attend the Company's annual general meeting, at which the Chairmen of the Board, the chairman of the Board Committees (or in their absence, another member of the Board Committees), appropriate management executives and external auditors are available to answer the Shareholders' questions.

CONSTITUTIONAL DOCUMENTS

There was no change in the Company's constitutional documents during the year.

INDEPENDENT AUDITOR'S REPORT

Deloitte.
德勤

TO THE MEMBERS OF POU SHENG INTERNATIONAL (HOLDINGS) LIMITED
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Pou Sheng International (Holdings) Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 48 to 153, which comprise the consolidated statement of financial position as at December 31, 2014, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and 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 Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants 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 the 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 and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. 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.

INDEPENDENT AUDITOR'S REPORT

AUDITOR'S RESPONSIBILITY (Continued)

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 the 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.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of the affairs of the Group as at December 31, 2014, and of its profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
March 20, 2015

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED DECEMBER 31, 2014

	Notes	2014 US$'000	2013 US$'000
Revenue	5	1,980,575	1,777,187
Cost of sales		(1,400,022)	(1,263,406)
Gross profit		580,553	513,781
Other operating income and gains (losses)	6(a)	23,744	28,183
Selling and distribution expenses		(495,131)	(452,304)
Administrative expenses		(75,611)	(72,350)
Operating profit		33,555	17,310
Finance costs		(9,973)	(14,423)
Finance income		3,606	2,100
Finance costs – net	6(b)	(6,367)	(12,323)
Share of results of an associate		(426)	(172)
Share of results of joint ventures		(3,880)	(5,759)
Other gains (losses)	6(c)	(2,512)	(29,699)
Profit (loss) before taxation		20,370	(30,643)
Income tax expense	7	(13,882)	(7,854)
Profit (loss) for the year	8	6,488	(38,497)
Attributable to:			
Owners of the Company		4,649	(38,670)
Non-controlling interests		1,839	173
		6,488	(38,497)
Earnings (loss) per share	10		
– basic		US0.09 cent	US(0.72) cent
– diluted		US0.09 cent	US(0.72) cent

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2014

	2014 US$'000	2013 US$'000
Profit (loss) for the year	6,488	(38,497)
Other comprehensive (expense) income		
An item that will not be reclassified subsequently to profit or loss		
Exchange difference arising on translation	(22,209)	17,895
Total comprehensive expense for the year	(15,721)	(20,602)
Attributable to:		
Owners of the Company	(17,158)	(20,758)
Non-controlling interests	1,437	156
	(15,721)	(20,602)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT DECEMBER 31, 2014

	Notes	2014 US$'000	2013 US$'000
NON-CURRENT ASSETS			
Property, plant and equipment	11(a)	94,414	95,697
Deposit paid for acquisition of property, plant and equipment		1,875	383
Prepaid lease payments	11(b)	23,226	24,476
Rental deposits and prepayments		17,480	19,729
Intangible assets	12	113,405	118,201
Goodwill	13	82,977	82,977
Interest in an associate	15	2,022	2,550
Interests in joint ventures	16	9,292	13,561
Loans to joint ventures	16	17,246	23,063
Long-term loan receivables	18	8,044	8,246
Available-for-sale investment	19	–	–
Deferred tax assets	20	1,003	2,932
		370,984	391,815
CURRENT ASSETS			
Inventories	21	597,179	631,595
Trade and other receivables	22	316,228	349,439
Taxation recoverable		328	1,323
Structured bank deposit	23(a)	–	2,144
Bank balances and cash	23(b)	43,743	61,424
		957,478	1,045,925
Assets classified as held for sale	24	–	22,067
		957,478	1,067,992

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT DECEMBER 31, 2014

	Notes	2014 US$'000	2013 US$'000
CURRENT LIABILITIES			
Trade and other payables	25	206,856	221,949
Taxation payable		1,967	5,173
Bank overdrafts	23(c)	–	20,220
Bank borrowings	26	196,545	197,382
		405,368	444,724
Liabilities associated with assets classified as held for sale	24	–	16,850
		405,368	461,574
NET CURRENT ASSETS		552,110	606,418
TOTAL ASSETS LESS CURRENT LIABILITIES		923,094	998,233
NON-CURRENT LIABILITIES			
Bank borrowings	26	–	50,000
Consideration payable for acquisition of business		16,436	18,016
Deferred tax liabilities	20	31,388	33,285
		47,824	101,301
NET ASSETS		875,270	896,932
CAPITAL AND RESERVES			
Share capital	27	6,909	6,909
Reserves		853,797	874,005
Equity attributable to owners of the Company		860,706	880,914
Non-controlling interests		14,564	16,018
TOTAL EQUITY		875,270	896,932

The consolidated financial statements on pages 48 to 153 were approved and authorised for issue by the Board of Directors on March 20, 2015 and are signed on its behalf by:

Tsai David, Nai Fung	**Kwan, Heh-Der**
CHAIRMAN AND NON-EXECUTIVE DIRECTOR	*CHIEF EXECUTIVE OFFICER AND EXECUTIVE DIRECTOR*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2014

	Equity attributable to owners of the Company													
	Share capital US$'000 (Note 27)	Share premium US$'000	Special reserve US$'000 (note (i))	Other reserve US$'000 (note (ii))	Revaluation reserve US$'000 (note (iii))	Shares held under share award scheme US$'000	Share award reserve 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	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 the translation of financial statements	-	-	-	-	-	-	-	-	-	17,912	-	17,912	(17)	17,895
(Loss) profit for the year	-	-	-	-	-	-	-	-	-	-	(38,670)	(38,670)	173	(38,497)
Total comprehensive income and expense for the year	-	-	-	-	-	-	-	-	-	17,912	(38,670)	(20,758)	156	(20,602)
Issue of shares for acquisition of subsidiaries and business in previous years	59	3,778	-	(4,929)	-	-	-	-	-	-	1,092	-	-	-
Recognition of equity-settled share-based payments, net of amount forfeited relating to share options not yet vested	-	-	-	-	-	-	-	(845)	-	-	794	(51)	-	(51)
Realised on deregistration of subsidiaries	-	-	-	-	-	-	-	-	-	(171)	171	-	-	-
Realised on disposal of a joint venture	-	-	-	-	-	-	-	-	-	(521)	521	-	-	-
Dividend paid to non-controlling interests of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	(487)	(487)
Transfer	-	-	-	-	-	-	-	-	3,679	-	(3,679)	-	-	-
At December 31, 2013	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 the translation of financial statements	-	-	-	-	-	-	-	-	-	(21,807)	-	(21,807)	(402)	(22,209)
Profit for the year	-	-	-	-	-	-	-	-	-	-	4,649	4,649	1,839	6,488
Total comprehensive income and expense for the year	-	-	-	-	-	-	-	-	-	(21,807)	4,649	(17,158)	1,437	(15,721)
Purchase of shares under share award scheme	-	-	-	-	-	(1,168)	-	-	-	-	-	(1,168)	-	(1,168)
Recognition of equity-settled share-based payments, net of amounts forfeited relating to share options and share awards not yet vested	-	-	-	-	-	-	82	1	-	-	-	83	-	83
Realised on deregistration of subsidiaries	-	-	-	5,961	-	-	-	-	-	1,256	(7,217)	-	-	-
Realised on disposal of subsidiaries	-	-	-	-	-	-	-	-	-	(308)	308	-	-	-
Acquisition of remaining interest in a subsidiary	-	-	-	(1,965)	-	-	-	-	-	-	-	(1,965)	(853)	(2,818)
Dividend paid to non-controlling interests of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	(2,038)	(2,038)
Transfer	-	-	-	-	-	-	-	-	6,455	-	(6,455)	-	-	-
At December 31, 2014	6,909	758,792	96,269	(211,527)	8,108	(1,168)	82	5,219	38,878	97,392	61,752	860,706	14,564	875,270

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31, 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, 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 have already been issued during the year ended December 31, 2013 and the relevant balance has been transferred to share capital and share premium as at December 31, 2013 and 2014.

(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 disposals 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.

(v) No dividend was paid or proposed during the year (2013: nil), nor has any dividend been proposed since the end of the reporting period.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2014

	2014 US$'000	2013 US$'000
OPERATING ACTIVITIES		
Profit (loss) before taxation	20,370	(30,643)
Adjustments for:		
Depreciation of property, plant and equipment	24,028	34,197
Release of prepaid lease payments	656	657
Amortisation of intangible assets	7,822	8,215
Impairment loss of intangible assets	–	11,025
Allowance for inventories, net	18,612	7,078
Impairment loss recognised on trade receivables	2,262	2,650
Impairment loss recognised (reversed) on other receivables	933	(34)
Interest expense	9,973	14,423
Interest income	(3,606)	(2,100)
Share of results of an associate	426	172
Share of results of joint ventures	3,880	5,759
Recognition (reversal) of equity-settled share-based payments	83	(51)
Gain on deregistration of subsidiaries	(52)	–
Loss on disposal of property, plant and equipment	1,256	2,186
Impairment loss of property, plant and equipment	–	5,640
Impairment losses of interests in joint ventures	–	585
Impairment losses on loans to joint ventures	4,140	8,345
Impairment loss on consideration receivable for disposal of properties	–	4,061
Fair value (gain) loss on consideration payable for acquisition of business	(1,576)	43
Operating cash flows before movements in working capital	89,207	72,208
Decrease in rental deposits and prepayments	2,871	8,046
Decrease (increase) in inventories	5,547	(41,236)
Decrease (increase) in trade and other receivables	29,222	(35,265)
(Decrease) increase in trade and other payables	(17,140)	34,689
Cash generated from operations	109,707	38,442
Income tax paid	(16,779)	(8,638)
NET CASH FROM OPERATING ACTIVITIES	92,928	29,804

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2014

	Note	2014 US$'000	2013 US$'000
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(26,306)	(18,858)
Placement of structured bank deposit		(9,743)	(2,144)
Advance to minority shareholder of subsidiary		(4,826)	–
Acquisition of subsidiaries (net of cash and cash equivalents acquired)	29	(4,741)	–
Deposit paid for acquisition of property, plant and equipment		(1,921)	(372)
Proceeds from disposal of property, plant and equipment		3,612	1,240
Repayment of advance to joint ventures		1,146	801
Interest income		3,606	2,100
Proceeds from disposal of assets previously classified as held for sale (net of cash and cash equivalents disposed of)		4,026	–
Release of structured bank deposit		11,887	–
Repayment of advance to an associate		–	2,407
NET CASH USED IN INVESTING ACTIVITIES		(23,260)	(14,826)

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2014

	Note	2014 US$'000	2013 US$'000
FINANCING ACTIVITIES			
Repayment of bank borrowings		(381,822)	(433,504)
Repayment of advance from related and connected parties		(86,109)	(46,983)
Interest paid		(9,973)	(14,423)
Acquisition of remaining interest in a subsidiary		(2,818)	–
Dividend paid to non-controlling interests of subsidiaries		(2,038)	(487)
Purchase of shares under share award scheme		(1,168)	–
Advance from related and connected parties		86,109	43,445
New bank borrowings raised		330,467	349,466
NET CASH USED IN FINANCING ACTIVITIES		(67,352)	(102,486)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		2,316	(87,508)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		(932)	1,379
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		42,359	128,488
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		43,743	42,359
ANALYSIS OF CASH AND CASH EQUIVALENTS			
Bank balances and cash		43,743	61,424
Cash and cash equivalents included in assets classified as held for sale	24	–	1,155
Bank overdrafts		–	(20,220)
		43,743	42,359

1. GENERAL INFORMATION

The Company is an exempted company incorporated in Bermuda with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The immediate holding company is Major Focus Management Limited, a private company incorporated in the British Virgin Islands ("BVI"). The shares of an intermediate holding company of the Company, Yue Yuen Industrial (Holdings) Limited ("Yue Yuen"), an exempted company incorporated in Bermuda with limited liability, are also listed on the Stock Exchange.

The principal operations of the Group are conducted in the PRC. The consolidated financial statements are presented in United States Dollar ("USD"), which is different from the functional currency of the Company, Renminbi ("RMB"). The directors consider that presenting consolidated financial statements in USD is preferable when controlling and monitoring the performance and financial position of the Group and in reporting to Yue Yuen whose functional currency is USD.

The Company is an investment holding company. The principal activities of the Group are set out in Note 5.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

Amendments to HKFRSs and a new Interpretation that are mandatorily effective for the current year

In the current year, the Group has applied the following amendments to HKFRSs and an interpretation 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

The adoption of the revised HKFRSs has had no material effect on the amounts reported in the consolidated financial statements or disclosures set out in the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

New and revised HKFRSs in issue but not yet effective

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

HKFRS 9	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers[3]
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations[5]
Amendments to HKAS 1	Disclosure Initiative[5]
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable methods of Depreciation and Amortisation[5]
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants[5]
Amendments to HKAS 19	Defined Benefit Plans: Employee Contributions[4]
Amendments to HKAS 27	Equity Method in Separate Financial Statements[5]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[5]
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception[5]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2010 – 2012 Cycle[2]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011 – 2013 Cycle[4]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012 – 2014 Cycle[5]

1 Effective for annual periods beginning on or after January 1, 2018, with earlier application permitted.

2 Effective for annual periods beginning on or after July 1, 2014, with limited exceptions. Earlier application is permitted.

3 Effective for annual periods beginning on or after January 1, 2017, with earlier application permitted.

4 Effective for annual periods beginning on or after July 1, 2014, with earlier application permitted.

5 Effective for annual periods beginning on or after January 1, 2016, with earlier application permitted.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

HKFRS 9 "Financial Instruments"

Key requirements of HKFRS 9 are described as follows:

- All recognised financial assets that are within the scope of HKAS 39 "Financial Instruments: Recognition and Measurement" are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

- In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

- The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

HKFRS 9 "Financial Instruments" (Continued)

The directors of the Company anticipate that the adoption of HKFRS 9 in the future may have a significant impact on amounts reported in respect of the Group's financial assets and financial liabilities. Regarding the Group's financial assets, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

HKFRS 15 "Revenue from Contracts with Customers"

In July 2014, HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 "Revenue", HKAS 11 "Construction Contracts" and the related interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specially, HKFRS 15 introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added to HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

The directors of the Company consider that it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 on the amounts reported and disclosures made in the Group's consolidated financial statements until a detailed review is performed.

Other than the above, the directors of the Company anticipate that the application of the other new and revised HKFRSs will have no material impact on the Group's consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in the consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 "Share-based Payment", leasing transactions that are within the scope of HKAS 17 "Leases", and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 "Inventories" or value in use in HKAS 36 "Impairment of Assets".

In addition, for financial reporting purpose, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated income statement from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately for the Group's equity therein.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation (Continued)

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interest in an existing subsidiary that do not result in the Group losing control over the subsidiary are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity (other reserve) and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Business combinations

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

The identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 "Income Taxes" and HKAS 19 "Employee Benefits" respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 "Share-based Payment" at the acquisition date (see the accounting policy below); and
- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" are measured in accordance with that standard.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations (Continued)

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

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at either their fair value or, when applicable, on the basis specified in another HKFRS.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and considered as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments made against goodwill or gain on bargain purchase. Measurement period adjustments are adjustments that arisen from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKAS 39, or HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets", as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to its acquisition-date fair value, and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations (Continued)

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

Goodwill

Goodwill arising on acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any, and is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units ("CGU"), or groups of CGU, that are expected to benefit from the synergies of the combination. A CGU to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the CGU to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the CGU is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit, and then to the other assets of the unit on a pro rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss for goodwill is not reversed in subsequent periods.

On disposal of the relevant CGU, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

Investments in an associate and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in an associate and joint ventures (Continued)

The results and assets and liabilities of associates or joint ventures are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sale, in which case it is accounted for in accordance with HKFRS 5. Under the equity method, an investment in an associate or a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. When the Group's share of losses of an associate or a joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate or a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 "Impairment of Assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in an associate and joint ventures (Continued)

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate or a joint venture, or when the investment (or a portion thereof) is classified as held for sale. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with HKAS 39. The difference between the carrying amount of the associate or joint venture at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

When the Group reduces its ownership interest in an associate or a joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with an associate or a joint venture of the Group (such as a sale or contribution of assets), profits and losses resulting from the transactions with the associate or joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset (or disposal group) and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

When the Group is committed to a sale plan involving disposal of an investment, or a portion of an investment, in an associate or joint venture, the investment or the portion of the investment that will be disposed of is classified as held for sale when the criteria described above are met, and the Group discountiues the use of the equity method in relation to the portion that is classified as held for sale from the time when the investment (or a portion of the investment) is classified as held for sale. Any retained portion of an investment in an associate or a joint venture that has not been classified as held for sale continues to be accounted for using the equity method. The Group discontinues the use of the equity method at the time of disposal when the disposal results in the Group losing significant influence over the associate or joint control over the joint venture.

After the disposal takes place, the Group accounts for any retained interest in the associate or joint venture in accordance with HKAS 39 unless the retained interest continues to be an associate or a joint venture, in which case the Group uses the equity method (see accounting policy regarding investments in an associate or joint ventures above).

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

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

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rental income, including rentals invoiced in advance, from land and buildings under operating lease is recognised on a straight-line basis over the period of the respective leases.

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

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established (provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably).

Customer loyalty programmes

The fair value of the consideration received or receivable in respect of the initial sale is allocated between the award credits and the other components of the sale. The consideration allocated to the award credits is measured by reference to their fair values (i.e. the amount for which the award credits could be sold separately).

The consideration allocated to award credits is recognised as revenue when award credits are redeemed and the Group fulfills its obligations to supply awards. The amount of revenue recognised is based on the number of award credits that have been redeemed in exchange for awards, relative to the total number expected to be redeemed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

Customer loyalty programmes (Continued)

If at any time the unavoidable costs of meeting the obligations to supply the awards are expected to exceed the consideration received and receivable for them (i.e. the consideration allocated to the award credits at the time of the initial sale that has not yet been recognised as revenue plus any further consideration receivable when the customer redeems the award credits), the entity has onerous contracts. A liability shall be recognised for the excess in accordance with HKAS 37. The need to recognise such a liability could arise if the expected costs of supplying awards increase, for example if the entity revises its expectations about the number of award credits that will be redeemed.

Property, plant and equipment

Property, plant and equipment, including land and buildings held for use in the production or supply of goods or services, or for administrative purposes are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised to write off the cost of assets less their residual values, over their estimated useful life, using the straight-line method. The estimated useful life, residual values and depreciation method are reviewed at the end of the reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

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

Leasing

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

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leasing (Continued)

The Group as lessee

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's policy on borrowing costs (see the accounting policy below).

Contingent rentals and concessionaire fees, which are not fixed but based on factors such as percentage of sales, are recognised as expenses in the periods in which they are incurred. Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

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

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment, unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses, on the same basis as intangible assets that are acquired separately. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. Alternatively, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

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

Financial instruments

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

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

Financial assets

Financial assets are classified into the following specified categories: loans and receivables, financial assets at fair value through profit or loss ("FVTPL") and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Effective interest method

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

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

Loans and receivables

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

Financial assets at fair value through profit or loss

Financial assets at FVTPL of the Group include derivative financial instruments that are not designated and effective as a hedging instrument.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised directly in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at FVTPL.

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost less any identified impairment losses at the end of the reporting period (see accounting policy on impairment of financial assets below).

Impairment of financial assets

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

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as trade receivables, assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30 days to 60 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

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

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

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

In respect of available-for-sale equity investments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income.

Financial liabilities and equity

Classification as debt or equity

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

Equity instruments

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

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Financial liabilities at fair value through profit or loss

Financial liabilities are classified as at FVTPL if:

- it has been incurred principally for the purpose of repurchasing in the near term; or

- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

- it is a derivative that is not designated and effective as a hedging instrument.

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss is included in "fair value changes on consideration payable for acquisition of business" under "other gains (losses)" in profit or loss. Fair value is determined in the manner described in Note 37(c).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity (Continued)

Other financial liabilities

The Group's other financial liabilities, including trade and other payables, bank borrowings and bank overdrafts are subsequently measured at amortised cost, using the effective interest method.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis other than financial liabilities classified as at FVTPL.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by the Group are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

- the amount of the obligation under the contract, as determined in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets"; and

- the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of inventories are determined on a weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Foreign currencies

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

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

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. USD) using exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of the translation reserve (attributed to non-controlling interests as appropriate).

Borrowing costs

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

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

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

Taxation

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

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

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets that are acquired separately.

Retirement benefit costs

Payments to defined contribution retirement benefit plan, state managed retirement benefit schemes and the Mandatory Provident Fund Scheme ("MPF Scheme") are recognised as an expense when employees have rendered service entitling them to the contributions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Short-term and other long-term employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the period that related services is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Liabilities recognised in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Liabilities recognised in respect of other long-term employee benefits are measured at the present value of the estimated future cash flows expected to be made by the Group in respect of services provided by the employees up to the reporting date.

Impairment losses on tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)

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

Intangible assets with indefinite useful lives are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payment transactions

Equity-settled share-based payment transactions

Share option scheme

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

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

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

When the share options are cancelled during the vesting period, the Group accounts for the cancellation as an acceleration of vesting, and recognises immediately the amount that otherwise would have been recognised for services received over the remainder of the vesting period. The amount previously recognised in share-based compensation reserve will also be transferred to accumulated profits.

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 under share award scheme and deducted from total equity. No gain or loss is recognised on the transactions of the Company's own shares.

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 shares held under share award scheme. Accordingly, the related expense of the granted shares is reversed from the share award reserve. The difference arising from such transfer is debited/credited to accumulated profits.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

(a) Critical judgements in applying the Group's accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Intangible assets with indefinite useful lives

The directors consider that the brandnames, as set out in Note 12, for all practical purposes have indefinite useful lives and are therefore not amortised until their useful lives are determined to be finite. The brandnames are tested for impairment annually.

(b) Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that may 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.

(i) Estimated impairment of goodwill and intangible assets

Determining whether goodwill and intangible assets are impaired requires an estimation of the value in use of the CGUs to which goodwill and the intangible assets have been allocated. This calculation requires the Group to estimate the present value of the future cash flows expected to arise from the CGUs containing goodwill and the intangible assets using suitable discount rates. Where the expected future cash flows arising from the relevant CGUs differ from the original estimation, an impairment loss may arise. Details of the recoverable amount calculation are disclosed in Note 14.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

(b) Key sources of estimation uncertainty (Continued)

(ii) Estimated impairment of interests in an associate and joint ventures

Management review the recoverable amounts of the Group's associate and joint ventures by reference to the expected disposal proceeds from the joint venture partners of the relevant associate and joint ventures whenever there are concrete plans for the disposals. The amounts of the impairment losses in respect of each associate and joint venture is measured as the difference between the carrying amounts of the associate and joint ventures and the anticipated disposal proceeds. Where the actual future cash flows are less than expected, a material impairment loss may arise.

(iii) Impairment loss for inventories

The management of the Group reviews the aging of the inventories at the end of the reporting period, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in production nor saleable in the market. The management estimates the net realisable value for such items based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at the end of the reporting period and makes allowance for obsolete items. Where the actual future cash flows are less than expected, a material impairment loss may arise.

(iv) Estimated impairment of trade receivables

When there is objective evidence of impairment loss, the Group takes into consideration the estimated future cash flows. The amount of the impairment 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 (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise.

(v) Fair value of consideration payable for acquisition of business

Measurements of the fair value of the consideration payable for acquisition of business require the use of variables and assumptions including (i) the underlying value of the relevant equity interests, (ii) the expected volatility, (iii) the expected dividend yield for the Company, among others. Details of the measurements of the fair value and assumptions used are disclosed in Note 37(c).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

(b) Key sources of estimation uncertainty (Continued)

(vi) Income taxes

The realisability of the deferred tax asset arising from the unused tax losses is mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are more or less than expected, a material provision or reversal of deferred tax asset may arise, which would be recognised in profit or loss for the period in which such a provision or reversal takes place.

In addition, the Group provides deferred tax liabilities in relation to the earnings expected to be distributed from its subsidiaries, associate and joint ventures in the PRC and overseas. Deferred tax liabilities have not been provided on the distributable profits of these entities if the Group plans to retain in the respective entities for their daily operations and future developments. In case where the actual distribution of profits are larger than expected, material tax liabilities will arise, which will be recognised in profit or loss in the period in which such profits are declared or the future development plan of the Group is vanished, whichever is earlier.

5. REVENUE AND SEGMENTAL INFORMATION

The Group's operating segments are determined based on information reported to the chief operating decision maker (the "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 footwear products and sportswear products ("Manufacturing Business").

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

5. REVENUE AND SEGMENTAL INFORMATION (Continued)

Segment revenue and results

The following is an analysis of the Group's revenue and results by operating segment:

	Retail Business US$'000	Brand Licensee Business US$'000	Manufacturing Business US$'000	Segment total US$'000	Eliminations US$'000	Consolidated US$'000
For the year ended December 31, 2014						
REVENUE						
External sales - sportswear and footwear products	1,948,611	11,696	4,829	1,965,136	-	1,965,136
External sales - commissions from concessionaire sales	15,439	-	-	15,439	-	15,439
Inter-segment sales*	-	4,192	637	4,829	(4,829)	-
Total segment revenue	1,964,050	15,888	5,466	1,985,404	(4,829)	1,980,575
RESULTS						
Segment results	38,186	789	(3,864)	35,111	(1,443)	33,668
Reconciling items:						
Finance costs - net						(6,367)
Share of results of an associate and joint ventures						(4,306)
Others						(2,625)
Profit before taxation						20,370

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

5. REVENUE AND SEGMENTAL INFORMATION (Continued)

Segment revenue and results (Continued)

	Retail Business US$'000	Brand Licensee Business US$'000	Manufacturing Business US$'000	Segment total US$'000	Eliminations US$'000	Consolidated US$'000
For the year ended December 31, 2013						
REVENUE						
External sales – sportswear and footwear products	1,688,571	24,027	50,656	1,763,254	-	1,763,254
External sales – commissions from concessionaire sales	13,933	-	-	13,933	-	13,933
Inter-segment sales*	-	11,269	325	11,594	(11,594)	-
Total segment revenue	1,702,504	35,296	50,981	1,788,781	(11,594)	1,777,187
RESULTS						
Segment results	32,664	3,776	(18,759)	17,681	424	18,105
Reconciling items:						
Finance costs – net						(12,323)
Share of results of an associate and joint ventures						(5,931)
Others						(30,494)
Loss before taxation						(30,643)

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

The accounting policies of the operating segments are the same as the Group's accounting policies described in Note 3. 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 purposes of resource allocation and performance assessment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

5. REVENUE AND SEGMENTAL INFORMATION (Continued)

Segment assets and liabilities

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

	2014 US$'000	2013 US$'000
Segment assets		
Retail business	1,215,002	1,269,666
Brand licensee business	11,526	19,361
Manufacturing business	3,010	13,136
Total segment assets	1,229,538	1,302,163
Interest in an associate	2,022	2,550
Interests in and loans to joint ventures	26,538	36,624
Loan receivables	8,044	10,336
Bank balances and cash	43,743	61,424
Assets classified as held for sale	–	22,067
Other unallocated assets	18,577	24,643
Consolidated assets	1,328,462	1,459,807
Segment liabilities		
Retail business	208,920	217,080
Brand licensee business	8,938	11,095
Manufacturing business	725	6,506
Total segment liabilities	218,583	234,681
Bank borrowings and overdrafts	196,545	267,602
Liabilities associated to assets classified as held for sale	–	16,850
Other unallocated liabilities	38,064	43,742
Consolidated liabilities	453,192	562,875

For the purposes of monitoring segment performances and allocating resources between segments:

- all assets are allocated to operating segments other than interests in an associate and joint ventures, loans to joint ventures, loan receivables, available-for-sale investments, certain property, plant and equipment, deferred tax assets, taxation recoverable, certain other receivables, structured bank deposit, bank balances and cash and assets classified as held for sale; and

- all liabilities are allocated to operating segments other than accruals and other payables of the head office, taxation payable, bank borrowings, bank overdrafts, liabilities associated to assets classified as held for sale and deferred tax liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

5. REVENUE AND SEGMENTAL INFORMATION (Continued)

Other segment information

	Retail Business US$'000	Brand Licensee Business US$'000	Manufacturing Business US$'000	Segment total US$'000	Unallocated US$'000	Consolidated US$'000
For the year ended December 31, 2014						
Amounts included in the measure of segment results or segment assets:						
Additions to non-current assets (note)	31,076	2,373	328	33,777	842	34,619
Depreciation of property, plant and equipment	22,814	150	201	23,165	863	24,028
Release of prepaid lease payments	623	-	33	656	-	656
Amortisation of intangible assets	7,822	-	-	7,822	-	7,822
Loss (gain) on disposal of property, plant and equipment	1,384	-	(109)	1,275	(19)	1,256
Allowance for inventories, net	19,116	(504)	-	18,612	-	18,612
Impairment loss recognised on trade receivables	2,066	33	163	2,262	-	2,262
Impairment loss recognised on other receivables	881	52	-	933	-	933
Amounts regularly provided to the CODM but not included in the measure of segment results or segment assets:						
Interest in an associate	2,022	-	-	2,022	-	2,022
Interests in joint ventures	9,292	-	-	9,292	-	9,292
Share of loss of an associate	(426)	-	-	(426)	-	(426)
Share of loss of joint ventures	(3,880)	-	-	(3,880)	-	(3,880)

5. REVENUE AND SEGMENTAL INFORMATION (Continued)

Other segment information (Continued)

	Retail Business US$'000	Brand Licensee Business US$'000	Manufacturing Business US$'000	Segment total US$'000	Unallocated US$'000	Consolidated US$'000
For the year ended December 31, 2013						
Amounts included in the measure of segment results or segment assets:						
Additions to non-current assets (note)	18,159	244	116	18,519	1,181	19,700
Depreciation of property, plant and equipment	26,502	775	6,117	33,394	803	34,197
Release of prepaid lease payments	590	-	67	657	-	657
Amortisation of intangible assets	8,215	-	-	8,215	-	8,215
Loss (gain) on disposal of property, plant and equipment	2,140	(330)	9	1,819	367	2,186
Impairment loss of property, plant and equipment	-	-	5,640	5,640	-	5,640
Allowance for inventories, net	6,258	820	-	7,078	-	7,078
Impairment loss recognised on trade receivables	2,488	2	160	2,650	-	2,650
Reversal of impairment loss recognised on other receivables	34	-	-	34	-	34
Amounts regularly provided to the CODM but not included in the measure of segment results or segment assets:						
Interest in an associate	2,550	-	-	2,550	-	2,550
Interests in joint ventures	13,561	-	-	13,561	-	13,561
Share of loss of an associate	(172)	-	-	(172)	-	(172)
Share of loss of joint ventures	(5,759)	-	-	(5,759)	-	(5,759)
Impairment losses of interests in joint ventures	(585)	-	-	(585)	-	(585)

note: Non-current assets exclude interests in an associate and joint ventures, financial instruments, deferred tax assets and goodwill.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

5. REVENUE AND SEGMENTAL INFORMATION (Continued)

Information about major customers

The directors are not aware of any customer that individually contributed over 10% of the consolidated revenue from external customers for the year.

Geographical information

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

The following table provides an analysis of the Group's revenue by geographical location of customers, irrespective of the origin of the goods and information about its non-current assets by geographical location of the assets.

	Revenue from external customers For the year ended December 31,		Non-current assets (note)	
	2014 US$'000	2013 US$'000	2014 US$'000	2013 US$'000
PRC	1,963,811	1,740,204	331,840	340,487
Hong Kong	859	792	111	195
Other locations	15,905	36,191	1,426	781
	1,980,575	1,777,187	333,377	341,463

note: Non-current assets exclude interests in an associate and joint ventures, financial instruments, deferred tax assets and goodwill.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

6. OTHER INCOME AND GAINS (LOSSES)

(a) Other operating income and gains (losses)

	2014 US$'000	2013 US$'000
Included in the balance is the following items:		
Subsidies, rebates and other income from suppliers	17,579	18,116
Net exchange (loss) gain	(4,801)	4,034
Loss on disposal of property, plant and equipment	(1,256)	(2,186)
Impairment loss recognised on trade receivables	(2,262)	(2,650)
Impairment loss (recognised) reversed on other receivables	(933)	34

(b) Finance income and costs

	2014 US$'000	2013 US$'000
Interest expenses on:		
– bank overdrafts and bank borrowings wholly repayable within five years	(7,825)	(12,975)
– advances from related parties	(2,148)	(1,448)
	(9,973)	(14,423)
Interest income from:		
– bank deposits	2,530	693
– advances to joint ventures	960	1,055
– advances to former joint ventures and a third party	116	352
	3,606	2,100
Finance costs, net	(6,367)	(12,323)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

6. OTHER INCOME AND GAINS (LOSSES) (Continued)

(c) Other gains (losses) arising other than operating activities

	2014 US$'000	2013 US$'000
Impairment losses on loans to joint ventures (Note 16 (iii))	(4,140)	(8,345)
Fair value gain (loss) on consideration payable for acquisition of business (Note 37(c))	1,576	(43)
Gain on deregistration of subsidiaries	52	–
Impairment loss of property, plant and equipment (Note 11(a))	–	(5,640)
Impairment losses of interests in joint ventures (Note 16(ii))	–	(585)
Impairment loss of intangible assets (Note 12)	–	(11,025)
Impairment loss on consideration receivable for disposal of properties	–	(4,061)
	(2,512)	(29,699)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

7. INCOME TAX EXPENSE

	2014 US$'000	2013 US$'000
Taxation attributable to the Company and its subsidiaries:		
Current year:		
Hong Kong Profits Tax (note i)	–	–
PRC Enterprise Income Tax ("EIT") (note ii)	15,582	10,783
Overseas income tax (note iii)	1,042	1,762
	16,624	12,545
(Over)underprovision in prior years:		
Hong Kong Profits Tax	49	42
PRC EIT	(2,132)	(1,355)
Overseas income tax	67	56
	(2,016)	(1,257)
Current tax charge – total	14,608	11,288
Deferred tax credit (Note 20)	(726)	(3,434)
	13,882	7,854

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

7. INCOME TAX EXPENSE (Continued)

notes:

(i) Hong Kong
Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

(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 enterprise income tax law, implementation rules and notices 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. Certain subsidiaries are engaged in the state-encouraged industries under the Catalogue and the directors of the Company consider that the relevant subsidiaries are eligible for the preferential tax rate of 15% in both years.

(iii) Overseas
Taxation arising in other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

7. INCOME TAX EXPENSE (Continued)

The tax charge for the year can be reconciled to the profit (loss) before taxation per the consolidated income statement as follows:

	2014 US$'000	2013 US$'000
Profit (loss) before taxation	20,370	(30,643)
Tax at income tax rate of 25% (note)	5,093	(7,661)
Tax effect of share of results of an associate and joint ventures	1,076	1,483
Tax effect of expenses not deductible for tax purposes	11,063	14,052
Tax effect of income not taxable for tax purposes	(5,870)	(5,112)
Effect of tax holidays granted to PRC subsidiaries	(2,279)	(256)
Effect of different tax rates of subsidiaries operating in other jurisdictions	(282)	203
Effect of tax loss not recognised	7,110	7,393
Utilisation of tax losses previously not recognised	(1,037)	(2,120)
Overprovision of tax in prior years	(2,016)	(1,257)
Withholding income tax on unremitted earnings of overseas subsidiaries	1,024	1,129
Income tax expenses for the year	13,882	7,854

note: The income tax rate in the jurisdiction where the operations of the Group substantially based is used.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

8. PROFIT (LOSS) FOR THE YEAR

	2014 US$'000	2013 US$'000
Profit (loss) for the year has been arrived at after charging (crediting):		
Directors' and chief executives' emoluments (Note 9)	805	708
Retirement benefit scheme contributions, excluding directors and the chief executive	20,233	18,212
Equity-settled share-based payments, excluding directors and the chief executive	75	(51)
Other staff costs	159,014	154,379
Total staff costs	180,127	173,248
Auditor's remuneration	542	542
Depreciation of property, plant and equipment	24,028	34,197
Allowance for inventories, net	18,612	7,078
Release of prepaid lease payments	656	657
Amortisation of intangible assets (included in selling and distribution expenses)	7,822	8,215
Costs of inventories recognised as an expense	1,400,022	1,263,406
Research and development expenditure recognised as an expense	155	2,855
Share of taxation of an associate (included in share of results of an associate)	174	9
Share of taxation of joint ventures (included in share of results of joint ventures)	69	162

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

9. DIRECTORS', CHIEF EXECUTIVES' AND EMPLOYEES' EMOLUMENTS

(a) Directors' and chief executives' emoluments

Details of emoluments of each of the nine (2013: ten) individual directors are set out as follows:

	Fees US$'000	Salaries and other allowances US$'000	Bonus US$'000 (note i)	Retirement benefit scheme contributions US$'000	Equity-settled share-based payment US$'000	Total US$'000
For the year ended December 31, 2014						
Executive directors:						
Kwan, Heh-Der (note ii)	-	356	262	2	8	628
Wu, Pan-Tsu	-	41	-	-	-	41
Non-executive directors:						
Tsai David, Nai Fung	-	-	-	-	-	-
Tsai Patty, Pei Chun	-	-	-	-	-	-
Li I-nan	19	-	-	-	-	19
Independent non-executive directors:						
Chen Huan-Chung	39	-	-	-	-	39
Chang Li Hsien, Leslie (note iii)	29	-	-	-	-	29
Hsieh, Wuei-Jung	39	-	-	-	-	39
Shan Xue (note iv)	10	-	-	-	-	10
	136	397	262	2	8	805

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

9. DIRECTORS', CHIEF EXECUTIVES' AND EMPLOYEES' EMOLUMENTS (Continued)

(a) Directors' and chief executives' emoluments (Continued)

	Fees US$'000	Salaries and other allowances US$'000	Bonus US$'000 (note i)	Retirement benefit scheme contributions US$'000	Equity-settled share-based payment US$'000	Total US$'000
For the year ended December 31, 2013						
Executive directors:						
Kwan, Heh-Der (note ii)	-	360	150	2	-	512
Wu, Pan-Tsu	-	41	-	-	-	41
Non-executive directors:						
Tsai David, Nai Fung	-	-	-	-	-	-
Tsai Patty, Pei Chun	-	-	-	-	-	-
Kuo, Li-Lien (note v)	19	-	-	-	-	19
Li I-nan (note vi)	15	-	-	-	-	15
Independent non-executive directors:						
Chen Huan-Chung	39	-	-	-	-	39
Chang Li Hsien, Leslie (note iii)	39	-	-	-	-	39
Hu Sheng-Yih (note vii)	13	-	-	-	-	13
Hsieh, Wuei-Jung (note viii)	30	-	-	-	-	30
	155	401	150	2	-	708

9. DIRECTORS', CHIEF EXECUTIVES' AND EMPLOYEES' EMOLUMENTS (Continued)

(a) Directors' and chief executives' emoluments (Continued)

notes:

(i) Bonus is recommended by the Remuneration Committee and is approved by the Board of Directors, having regard to the Group's operating results, individual performance and comparable market statistics.

(ii) Mr. Kwan, Heh-Der is also the Chief Executive of the Group and his emoluments disclosed above include those for services rendered by him as the Chief Executive.

(iii) Mr. Chang Li Hsien, Leslie resigned as an independent non-executive director on October 1, 2014.

(iv) Mr. Shan Xue was appointed as an independent non-executive director on October 1, 2014.

(v) Ms. Kuo, Li-Lien retired as a non-executive director on May 31, 2013.

(vi) Mr. Li I-nan was appointed as a non-executive director on March 26, 2013.

(vii) Mr. Hu Sheng-Yih retired as an independent non-executive director on May 31, 2013.

(viii) Mr. Hsieh, Wuei-Jung was appointed as an independent non-executive director on March 26, 2013.

(b) Emoluments of senior management

Of the five (2013: six) senior management of the Company for the year ended December 31, 2014, two (2013: two) of them are directors of the Company and their remuneration has been disclosed in Note 9(a). The emoluments of the remaining three (2013: four) individuals for the year were within the following bands:

	2014 Number of employees	2013 Number of employees
Nil to HK$1,000,000	–	1
HK$1,000,001 to HK$1,500,000	1	3
HK$1,500,001 to HK$2,000,000	1	–
HK$2,000,001 to HK$2,500,000	1	–
	3	4

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

9. DIRECTORS', CHIEF EXECUTIVES' AND EMPLOYEES' EMOLUMENTS (Continued)

(c) Five highest paid individuals

Of the five individuals with the highest emoluments in the Group for the year ended December 31, 2014, one (2013: one) is a director and the chief executive, and two (2013: none) are senior management of the Company whose emoluments are included in Notes 9(a) and 9(b) respectively. The emoluments of the remaining two (2013: four) individuals for the year are as follows:

	2014 US$'000	2013 US$'000
Salaries and other allowances	460	596
Bonus	168	151
Equity-settled share-based payment	24	115
	652	862

Their emoluments were within the following bands:

	2014 Number of employees	2013 Number of employees
HK$1,000,001 to HK$1,500,000	–	3
HK$2,000,001 to HK$2,500,000	1	–
HK$2,500,001 to HK$3,000,000	1	1
	2	4

During both years, no emoluments were paid by the Group to any of the directors or the five highest paid individuals (including directors and the chief executive and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors nor the chief executive has waived any emoluments during both years.

10. EARNINGS (LOSS) PER SHARE

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

	2014 US$'000	2013 US$'000
Earnings (loss):		
Earnings (loss) for the year attributable to owners of the Company for the purposes of basic and diluted earnings (loss) per share	4,649	(38,670)

	2014	2013
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings (loss) per share	5,367,522,314	5,378,908,615
Effect of dilutive potential ordinary shares: – Unvested awarded shares	3,895,890	–
Weighted average number of ordinary shares for the purpose of diluted earnings (loss) per share	5,371,418,204	5,378,908,615

The weighted average number of ordinary shares shown above for the year ended December 31, 2014 has been arrived at after deducting the shares held by the trustee of the share award scheme (see Note 33(b)).

The computation of diluted earnings (loss) per share for both years 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 each of the years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

11. PROPERTY, PLANT AND EQUIPMENT/PREPAID LEASE PAYMENTS

(a) Property, plant and equipment

	Leasehold land and buildings US$'000	Office and shopping mall buildings US$'000	Factory buildings and warehouses US$'000	Plant and machinery US$'000	Leasehold improvements US$'000	Furniture, fixture and equipment US$'000	Motor vehicles US$'000	Total US$'000
COST								
At January 1, 2013	9,570	13,465	56,088	28,217	128,552	31,799	4,272	271,963
Additions	-	-	-	52	15,584	3,507	185	19,328
Disposals	-	-	-	(16,019)	(11,452)	(1,543)	(587)	(29,601)
Transfer to assets classified as held for sale	-	-	-	(3,996)	-	(573)	(76)	(4,645)
Exchange realignment	301	358	1,701	771	3,306	992	100	7,529
At December 31, 2013	9,871	13,823	57,789	9,025	135,990	34,182	3,894	264,574
Additions	-	-	-	183	22,925	3,273	308	26,689
Acquired on acquisition of subsidiaries (Note 29)	-	-	-	-	56	42	11	109
Disposals	-	-	-	(3,638)	(8,679)	(9,164)	(859)	(22,340)
Exchange realignment	(275)	(326)	(1,527)	(91)	(3,062)	(820)	(75)	(6,176)
At December 31, 2014	9,596	13,497	56,262	5,479	147,230	27,513	3,279	262,856
DEPRECIATION AND IMPAIRMENT								
At January 1, 2013	1,377	1,362	15,731	12,871	91,257	22,533	2,383	147,514
Provided for the year	397	296	3,014	2,480	23,196	4,365	449	34,197
Transfer to assets classified as held for sale	-	-	-	(400)	-	(111)	(5)	(516)
Impairment loss recognised in profit or loss	-	-	-	4,924	-	716	-	5,640
Eliminated on disposals	-	-	-	(11,300)	(9,187)	(1,261)	(451)	(22,199)
Exchange realignment	46	31	511	383	2,582	624	64	4,241
At December 31, 2013	1,820	1,689	19,256	8,958	107,848	26,866	2,440	168,877
Provided for the year	202	302	2,702	6	18,157	2,317	342	24,028
Eliminated on disposals	-	-	-	(3,638)	(7,591)	(8,620)	(779)	(20,628)
Exchange realignment	(46)	(34)	(515)	(91)	(2,459)	(640)	(50)	(3,835)
At December 31, 2014	1,976	1,957	21,443	5,235	115,955	19,923	1,953	168,442
CARRYING VALUE								
At December 31, 2014	7,620	11,540	34,819	244	31,275	7,590	1,326	94,414
At December 31, 2013	8,051	12,134	38,533	67	28,142	7,316	1,454	95,697

11. PROPERTY, PLANT AND EQUIPMENT/PREPAID LEASE PAYMENTS (Continued)

(a) Property, plant and equipment (Continued)

In the opinion of the directors, the leasehold land and building element of certain of the Group's properties in the PRC cannot be allocated reliably. Accordingly, they are presented on a combined basis as leasehold land and buildings above.

All buildings, office and shopping mall buildings and factory buildings and warehouses are erected on land with medium-term land use rights in the PRC.

The shopping mall buildings are held mainly for the Group's retail business.

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Leasehold land and buildings/office and shopping mall buildings/ factory buildings and warehouses	2% – 3%
Plant and machinery	5% – 15%
Leasehold improvements	10% – 50%
Furniture, fixture and equipment	20% – 30%
Motor vehicles	20% – 30%

During the year ended December 31, 2013, the directors of the Company conducted a review of the property, plant and equipment of the Group's Manufacturing Business segment and determined that certain assets were impaired, due to technical obsolescence. Management considered that the fair value less costs to sell of those assets (mainly comprises plant and machinery, and furniture, fixture and equipment) was less than its carrying amount. Accordingly, an impairment loss of US$5,640,000 was recognised in profit or loss. The estimated fair value less costs to sell is determined by reference to the recent market prices for similar assets.

(b) Prepaid lease payments

	2014 US$'000	2013 US$'000
The carrying amount of the Group's prepaid lease payments are analysed as follows:		
Non-current assets	23,226	24,476
Current assets (included in trade and other receivables)	650	667
	23,876	25,143

The carrying amount represents prepaid lease payments for medium-term land use rights in the PRC.

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12. INTANGIBLE ASSETS

	Customer relationship US$'000	Brandnames US$'000	Licensing agreements US$'000	Non-compete agreements US$'000	Total US$'000
COST					
At January 1, 2013	8,570	74,999	10,143	71,388	165,100
Exchange realignment	237	2,073	280	1,973	4,563
At December 31, 2013	8,807	77,072	10,423	73,361	169,663
Acquired on acquisition of subsidiaries (Note 29)	-	-	5,900	-	5,900
Exchange realignment	(215)	(1,889)	(302)	(1,797)	(4,203)
At December 31, 2014	8,592	75,183	16,021	71,564	171,360
AMORTISATION AND IMPAIRMENT					
At January 1, 2013	2,470	4,785	1,099	22,715	31,069
Provided for the year	1,075	-	1,026	6,114	8,215
Impairment loss recognised in profit or loss	426	4,831	-	5,768	11,025
Exchange realignment	91	206	46	810	1,153
At December 31, 2013	4,062	9,822	2,171	35,407	51,462
Provided for the year	1,003	-	1,482	5,337	7,822
Exchange realignment	(109)	(241)	(68)	(911)	(1,329)
At December 31, 2014	4,956	9,581	3,585	39,833	57,955
CARRYING VALUE					
At December 31, 2014	3,636	65,602	12,436	31,731	113,405
At December 31, 2013	4,745	67,250	8,252	37,954	118,201

Addition of the Group's intangible assets during the year arose from the acquisition of Welcome Wealth Group (as defined in Note 29).

12. INTANGIBLE ASSETS (Continued)

All of the intangible assets were valued as of the respective dates of acquisitions by American Appraisal China Limited ("American Appraisal"), or APAC Asset Valuation and Consulting Limited ("APAC Asset Valuation"), firms of professional valuers, on the following basis:

Customer relationship	The Excess Earnings method under the Income Approach
Brandnames	The Relief from Royalty method under the Income Approach
Licensing agreements	The Excess Earnings method under the Income Approach or the Relief from Royalty method under the Income Approach
Non-compete agreements	The "With and Without" method under the Income Approach

The management of the Group considers customer relationship, licensing agreements and non-compete agreements have finite useful lives and are amortised on a straight-line basis over the following periods:

Customer relationship	8 years
Licensing agreements	10 years
Non-compete agreements	5 to 20 years

During the year ended December 31, 2014, 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 calculation related to the estimation of cash inflows/outflows which included budgeted sales and gross margin. Such estimation was based on the past performance of the acquirees and their subsidiaries and management's expectations for the market development.

During the year ended December 31, 2013, the Group recognised aggregate impairment losses of US$11,025,000 in relation to the brandname, the non-compete agreement and customer relationship arising on acquisition of certain retail business that operate in chains of retails stores under Unit A and Unit D (both defined in Note 14), the PRC. The impairment losses arose due to the worse than expected operating results of the relevant CGU of the Retail Business. The basis of the impairment loss is set out in Note 14 and due primarily to difficulties arising from excessive inventory and fierce competitions in the region. This, combined with the rising operating costs, has therefore deteriorated both the operating environments and profitability of the relevant CGU and an impairment loss of certain intangible assets of the CGU is therefore recognised during that year.

The brandnames are considered by the management of the Group as having indefinite useful lives because they are expected to contribute to net cash inflows to the Group indefinitely. They are tested for impairment annually and whenever there is an indication that they may have been impaired. Particulars of the impairment testing are set out in Note 14.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

13. GOODWILL

	US$'000
COST	
At January 1, 2013, December 31, 2013 and 2014	82,977

Particulars regarding impairment testing on goodwill are detailed in Note 14.

14. IMPAIRMENT TESTING ON GOODWILL AND INTANGIBLE ASSETS

For the purpose of impairment testing, intangible assets of the Group as set out in Note 12 are allocated to the CGUs of Retail Business and the Brand Licensee Business that are expected to benefit from the intangible assets to generate future economic benefits. The carrying amount of the intangible assets at the end of the reporting period allocated to these units are as follows:

	Customer relationship US$'000	Brandnames US$'000	Licensing agreements US$'000	Non-compete agreements US$'000	Total US$'000
At December 31, 2014					
Retail Business:					
- Chains of stores mainly in Northern China, the PRC ("Unit A")	1,569	25,271	-	13,024	39,864
- Chains of stores mainly in Zhejiang Province, the PRC ("Unit B")	-	40,331	-	737	41,068
- Chains of stores mainly in Hebei Province, the PRC ("Unit C")	-	-	7,033	3,374	10,407
- Chains of stores mainly in Liaoning Province, the PRC ("Unit D")	2,067	-	-	14,596	16,663
Brand Licensee Business	-	-	5,403	-	5,403
	3,636	65,602	12,436	31,731	113,405

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14. IMPAIRMENT TESTING ON GOODWILL AND INTANGIBLE ASSETS (Continued)

	Customer relationship US$'000	Brandnames US$'000	Licensing agreements US$'000	Non-compete agreements US$'000	Total US$'000
At December 31, 2013					
Retail Business:					
- Unit A	2,203	25,906	-	16,690	44,799
- Unit B	-	41,344	-	1,762	43,106
- Unit C	-	-	8,252	3,663	11,915
- Unit D	2,542	-	-	15,839	18,381
	4,745	67,250	8,252	37,954	118,201

For the purpose of impairment testing, goodwill of the Group as set out in Note 13 is allocated to Retail Business as a group of CGUs.

The basis of recoverable amount of each of Units A, B, C, D, the group of CGUs in the Retail Business, and the Brand Licensee Business has been determined based on the value in use calculation, and assessed by the management as at December 31, 2014 and 2013.

These calculations use cash flow projections based on financial budgets approved by management covering a five-year period and discount rates of 14% (2013: 15%) for each of the CGU of Units A, B, C and D and the group of CGUs in the Retail Business and 17% for the CGU of the Brand Licensee Business. The cash flows beyond the five-year period are extrapolated using a steady growth rate of 3% (2013: 3%) for all of the above CGUs. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Other key assumption for the value in use calculation relates to the estimation of cash inflows/outflows which included budgeted sales and gross margin, such estimation is based on the unit's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the recoverable amount of the CGU to fall below its carrying amount.

As set out in Note 12, impairment loss amounting to US$7,944,000 has been made in respect of brandname and non-compete agreement allocated to Unit A and US$3,081,000 has been made in respect of non-compete agreements and customer relationship allocated to Unit D during the year ended December 31, 2013. Other than these, none of (i) goodwill allocated to Retail Business as a group of CGUs, nor (ii) intangible assets allocated to Units B, C or the Brand Licensee Business had suffered any impairment during the years ended December 31, 2013 or 2014.

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FOR THE YEAR ENDED DECEMBER 31, 2014

15. INTEREST IN AN ASSOCIATE

	2014 US$'000	2013 US$'000
Cost of unlisted investment in an associate	3,917	3,917
Share of post-acquisition results, net of dividends received	(1,218)	(792)
Share of post-acquisition reserves	823	925
Impairment losses (note)	(1,500)	(1,500)
	2,022	2,550

note: The recoverable amount of the associate was estimated by reference to the expected disposal proceed from the joint venture partner of the associate from its anticipated disposals.

The Group's associate at the end of the reporting period is 浙江寶宏體育用品有限公司 Zhejiang Baohong Sports Goods Company Limited ("Zhejiang Baohong"). Zhengjiang Baohong is accounted for using equity method in these consolidated financial statements. Particulars of Zhejiang Baohong at the end of the reporting period are as follows:

Name of entity	Form of entity	Country of establishment/ operation	Class of shares held	Proportion of issued and fully paid up capital indirectly held by the Company 2014	2013	Proportion of voting rights held by the Group 2014	2013	Principal activities
Zhejiang Baohong	Sino-foreign enterprise	PRC	Ordinary	49%	49%	49%	49%	Retailing of sportswear

Summarised financial information of Zhejiang Baohong, which is not individually material, is set out below. The summarised financial information below represents amount shown in Zhejiang Baohong's financial statements prepared in accordance with HKFRS.

	2014 US$'000	2013 US$'000
The Group's share of:		
Loss for the year	(426)	(172)
Other comprehensive (expense) income	(102)	111
Total comprehensive expense	(528)	(61)

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16. INTERESTS IN JOINT VENTURES/LOANS TO JOINT VENTURES

	2014 US$'000	2013 US$'000
Cost of unlisted investments in joint ventures (note i)	18,164	18,164
Share of post-acquisition profits, net of dividends received	(7,493)	(3,613)
Share of post-acquisition reserves	4,511	4,900
Impairment losses (note ii)	(5,890)	(5,890)
	9,292	13,561
Loans to joint ventures (note iii)	17,246	23,063

notes:

(i) Included in cost of investments in joint ventures as at January 1, 2013, December 31, 2013 and 2014 was goodwill of US$2,119,000 arising from the acquisition of a joint venture in prior years.

(ii) During the year ended December 31, 2013, impairment losses of US$585,000 were made in respect of the Group's interests in certain joint ventures. The recoverable amounts of the relevant joint ventures were estimated by reference to their expected disposal proceeds from the joint venture partners of the relevant joint ventures from their anticipated disposals. During the year ended December 31, 2014, no impairment losses were made.

(iii) The loans to joint ventures are secured by the equity interests in the relevant joint ventures held by the other joint venture partners, interest bearing at the prevailing lending rate of People's Bank of China ("PBOC") and have no fixed terms of repayment. Before offering any new loans to joint ventures, the Group assesses the joint ventures' credit qualities and the intended usages of the loans by the joint ventures. The recoverability of the loans is reviewed throughout the tenure of the loans.

Included in the carrying amount of loans to joint ventures as at December 31, 2014 was an impairment loss of US$4,140,000 (2013: US$8,345,000) made during the year in respect of the loans to certain joint ventures due primarily to their weakening financial positions. The directors consider that the fair value of the loans to joint ventures approximate their carrying amounts. Other than the above, no provision for impairment loss for other outstanding balance as at the end of the reporting period was considered necessary since there has been no past default history in respect of other joint ventures and the directors considers these counterparties are of good credit qualities based on their regular assessments. The loans are not expected to be repaid within one year and are classified as non-current.

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16. INTERESTS IN JOINT VENTURES/LOANS TO JOINT VENTURES (Continued)

The Group's material joint ventures at the end of the reporting period include 吉林領跑體育用品有限公司 Jilin Lingpao Sporting Goods Co. Ltd ("Jilin Lingpao") and Sky Grace Investments Limited ("Sky Grace"). All of the Group's joint ventures are accounted for using equity method in these consolidated financial statements. Details of the Group's material joint ventures at the end of the reporting period are as follows:

Name of entity	Form of entity	Country/place of incorporation or establishment/ operation	Class of shares held	Proportion of issued and fully paid up capital indirectly held by the Company		Proportion of voting rights held by the Group		Principal activities
				2014	2013	2014	2013	
Jilin Lingpao	Sino-foreign enterprise	PRC	Ordinary	50%	50%	50%	50%	Retailing of sportswear
Sky Grace	Sino-foreign enterprise	Hong Kong	Ordinary	50%	50%	50%	50%	Investment holding

Under the relevant shareholders' agreements, decisions on certain matters of these entities require unanimous consent from all of the relevant joint venture partners. In the opinion of the directors of the Company, these certain matters relate to the activities that significantly affect the returns of each of these entities. Accordingly, neither the Group nor the other relevant joint venture partners has the ability to control the respective entities unilaterally and each of these entities is therefore considered as jointly controlled by the Group and the relevant joint venture partners. Therefore, the above entities are accounted for as joint ventures of the Group.

The above table lists the joint ventures of the Group which, in the opinion of the directors, principally affected the results or net assets of the Group. To give details of other joint ventures would, in the opinion of the directors, result in particulars of excessive length.

Summarised financial information in respect of each of the Group's material joint ventures and the aggregate of other joint ventures is set out below. The summarised financial information below represents amount shown in the joint ventures' financial statements prepared in accordance with HKFRS.

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16. INTERESTS IN JOINT VENTURES/LOANS TO JOINT VENTURES (Continued)

	For the year ended December 31, 2014				For the year ended December 31, 2013			
	Jilin Lingpao US$'000	Sky Grace US$'000	Others US$'000	Total US$'000	Jilin Lingpao US$'000	Sky Grace US$'000	Others US$'000	Total US$'000
Financial information of consolidated income statement and consolidated statement of comprehensive income								
Revenue	32,266	35,227	110,274	177,767	37,856	34,107	112,903	184,866
(Loss) profit for the year	(7,281)	587	(6,641)	(13,335)	(8,541)	(98)	(11,330)	(19,969)
Other comprehensive (expense) income for the year	(295)	(254)	78	(471)	493	274	112	879
Total comprehensive (expense) income for the year	(7,576)	333	(6,563)	(13,806)	(8,048)	176	(11,218)	(19,090)
(Loss) profit for the year, attributable to the Group	(3,641)	293	(532)	(3,880)	(4,270)	(49)	(1,440)	(5,759)
Other comprehensive (expense) income for the year, attributable to the Group	(147)	(127)	(115)	(389)	246	137	149	532
Total comprehensive (expense) income for the year, attributable to the Group	(3,788)	166	(647)	(4,269)	(4,024)	88	(1,291)	(5,227)
Dividends received from joint ventures during the year	-	-	-	-	-	-	-	-
The above financial information include the following:								
Depreciation and amortisation	(573)	(418)	(1,847)	(2,838)	(844)	(405)	(2,674)	(3,923)
Interest income	4	29	148	181	6	20	117	143
Interest expense	(287)	(53)	(1,787)	(2,127)	(433)	(51)	(1,180)	(1,664)
Income tax expense	(1)	(136)	(1)	(138)	-	(291)	(32)	(323)

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16. INTERESTS IN JOINT VENTURES/LOANS TO JOINT VENTURES (Continued)

	2014				2013			
	Jilin Lingpao US$'000	Sky Grace US$'000	Others US$'000	Total US$'000	Jilin Lingpao US$'000	Sky Grace US$'000	Others US$'000	Total US$'000
Financial information of consolidated statement of financial position								
Non-current assets	705	524	1,774	3,003	1,436	573	2,776	4,785
Current assets	47,092	17,418	50,938	115,448	58,327	15,994	71,906	146,227
Current liabilities	(34,439)	(7,471)	(60,164)	(102,074)	(38,667)	(6,429)	(75,571)	(120,667)
Non-current liabilities	(6,435)	-	-	(6,435)	(6,597)	-	-	(6,597)
Net assets of the joint ventures	6,923	10,471	(7,452)	9,942	14,499	10,138	(889)	23,748
The above amounts of assets and liabilities include the following:								
Cash and cash equivalents	251	391	2,855	3,497	300	1,038	3,886	5,224
Current financial liabilities (excluding trade and other payables and provisions)	(5,017)	(1,213)	(28,279)	(34,509)	(7,175)	(1,780)	(33,933)	(42,888)
Non-current financial liabilities (excluding trade and other payables and provisions)	(6,435)	-	-	(6,435)	(6,597)	-	-	(6,597)
Reconciliation to the carrying amounts of interest in the joint ventures:								
Net assets attributable to the equity holders of the joint ventures	6,923	10,471	(7,452)	9,942	14,499	10,138	(889)	23,748
Proportion of the Group's ownership interests in the joint ventures	50%	50%	varies	varies	50%	50%	varies	varies
Net assets of interest in joint ventures attributable to the Group	3,462	5,236	4,365	13,063	7,250	5,069	5,013	17,332
Goodwill	-	2,119	-	2,119	-	2,119	-	2,119
Impairment losses of interests in joint ventures	(2,900)	(600)	(2,390)	(5,890)	(2,900)	(600)	(2,390)	(5,890)
Carrying amount of the Group's interests in the joint ventures	562	6,755	1,975	9,292	4,350	6,588	2,623	13,561

16. INTERESTS IN JOINT VENTURES/LOANS TO JOINT VENTURES (Continued)

The unrecognised share of loss of joint ventures is as follow:

	2014 US$'000	2013 US$'000
The unrecognised share of loss of joint ventures for the year	2,727	4,233

	2014 US$'000	2013 US$'000
Cumulative unrecognised share of loss of joint ventures	8,058	5,331

There are no significant restrictions on the ability of the joint ventures to transfer funds to the Group in form of cash dividends or to repay loans or advances made by the Group noted.

17. INTERESTS IN SUBSIDIARIES

(a) Composition of the Group

At the end of the reporting period, the composition of the Company's subsidiaries are as follows. Majority of these subsidiaries operate in the PRC. The principal activities of these subsidiaries are summarised as follows:

Principal activities	Principal place of business	Number of subsidiaries 2014	2013
Retailing of sportswear	PRC	41	44
	Hong Kong	1	1
	Taiwan	1	1
Property leasing and management	PRC	6	6
Distribution of licenced products	PRC	1	2
	Taiwan	2	1
Manufacturing of sportswear	PRC	6	8
Investment holding	PRC	3	3
	Hong Kong	8	7
	BVI	17	17
		86	90

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17. INTERESTS IN SUBSIDIARIES (Continued)

(a) Composition of the Group (Continued)

Particulars of the Company's principal subsidiaries as at December 31, 2014 are set out in Note 38.

(b) Details of non-wholly-owned subsidiaries that have material non-controlling interests

The Group's non-wholly-owned subsidiaries that have material non-controlling interests at the end of the reporting period include Profit Concept Group Limited ("Profit Concept") and 青島寶瑞納體育用品有限公司 Qingdao Baoruina Sports Goods Company Limited ("Qingdao Baoruina"). The table below shows details of non-wholly-owned subsidiaries of the Group that have material non-controlling interests:

Name of subsidiary	Country of incorporation or establishment/ operation	Proportion of ownership interests and voting rights held by non-controlling interests		Profit (loss) allocated to non-controlling interests		Accumulated non-controlling interests	
		2014	2013	2014	2013	2014	2013
				US$'000	US$'000	US$'000	US$'000
Profit Concept	PRC	49%	49%	153	579	8,868	8,904
Qingdao Baoruina	PRC	28%	28%	2,004	1,421	7,453	7,306
Individually immaterial subsidiaries with non-controlling interests				(318)	(1,827)	(1,757)	(192)
Total				1,839	173	14,564	16,018

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17. INTERESTS IN SUBSIDIARIES (Continued)

(b) Details of non-wholly-owned subsidiaries that have material non-controlling interests (Continued)

Summarised financial information in respect of the Group's subsidiaries that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

	2014		2013	
	Profit Concept US$'000	Qingdao Baoruina US$'000	Profit Concept US$'000	Qingdao Baoruina US$'000
Financial information of consolidated income statement and consolidated statement of comprehensive income				
Revenue	83,712	95,257	84,491	87,632
Expenses and income tax	(83,400)	(88,100)	(83,310)	(82,556)
Profit for the year	312	7,157	1,181	5,076
Profit for the year, attributable to				
– equity holders of the Company	159	5,153	602	3,655
– non-controlling interests	153	2,004	579	1,421
	312	7,157	1,181	5,076
Other comprehensive (expense) income, attributable to				
– equity holders of the Company	(197)	(503)	(72)	476
– non-controlling interests	(189)	(196)	(71)	186
	(386)	(699)	(143)	662
Total comprehensive (expense) income, attributable to				
– equity holders of the Company	(38)	4,650	530	4,131
– non-controlling interests	(36)	1,808	508	1,607
	(74)	6,458	1,038	5,738
Dividends paid to non-controlling interests	–	1,661	–	–

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17. INTERESTS IN SUBSIDIARIES (Continued)

(b) Details of non-wholly-owned subsidiaries that have material non-controlling interests (Continued)

	2014		2013	
	Profit Concept US$'000	Qingdao Baoruina US$'000	Profit Concept US$'000	Qingdao Baoruina US$'000
Financial information of consolidated statement of financial position				
Non-current assets	2,856	2,153	4,419	1,354
Current assets	35,155	44,447	40,952	42,272
Current liabilities	(19,912)	(19,983)	(27,199)	(17,533)
	18,099	26,617	18,172	26,093
Equity attributable to				
– equity holders of the Company	9,231	19,164	9,268	18,787
– non-controlling interests	8,868	7,453	8,904	7,306
	18,099	26,617	18,172	26,093
Financial information of consolidated statement of cash flows				
Net cash inflow from operating activities	7,784	7,453	2,980	5,745
Net cash outflow from investing activities	(784)	(7,660)	(880)	(956)
Net cash outflow from financing activities	(6,821)	(136)	(659)	(4,827)
Effect of foreign exchange rate changes	(126)	(61)	72	13
Net cash inflow (outflow)	53	(404)	1,513	(25)

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18. LONG-TERM LOAN RECEIVABLES

	2014 US$'000	2013 US$'000
The loan receivables are expected to be repayable as follows:		
Within one year	–	2,090
More than one year, but not exceeding two years	8,044	–
More than two years, but not exceeding five years	–	8,246
	8,044	10,336
Less: amount due within one year shown under current assets (Note 22)	–	(2,090)
Amount due after one year	8,044	8,246
Analysed as:		
Secured	8,044	9,487
Unsecured	–	849
	8,044	10,336

The balances represent loan receivables due from a third party (2013: certain former joint ventures and a third party) which carry fixed interest at 3% (2013: 0.01% to 5.25%) per annum.

The collaterals for the secured portion of these loans are certain property, plant and equipment of the relevant entities and 39,634,662 shares of HK$0.01 each in the Company which are issuable for the acquisition of business in prior years. The Group is not permitted to sell or repledge the collaterals in the absence of default by the borrowers.

The recoverability of the loans is reviewed and monitored by the Group closely throughout the tenure of the loans. No significant balance was past due at the end of the reporting period. For the balance not yet past due at the end of the reporting period, no provision for impairment loss was considered necessary since there has been no past default history in respect of those receivables. The directors of the Company considered that the balance of the loan receivables at the end of the reporting period is recoverable.

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19. AVAILABLE-FOR-SALE INVESTMENT

The amount represents unlisted equity securities issued by a private entity incorporated in BVI that engages in the business of retailing of sportswear in the PRC and is measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates was so significant that the directors are of the opinion that their fair value could not be measured reliably.

The entity experienced significant financial difficulties and the carrying amount was fully impaired in prior years.

20. DEFERRED TAXATION

The followings are the major deferred tax (assets) liabilities recognised and movements thereon during current and prior years:

	Tax losses US$'000	Undistributed earnings of PRC and overseas entities US$'000	Fair value adjustments of intangible assets on business combination US$'000	Total US$'000
At January 1, 2013	(4,051)	3,437	33,508	32,894
Charge (credit) to profit or loss (Note 7)	1,139	237	(4,810)	(3,434)
Exchange realignment	(20)	60	853	893
At December 31, 2013	(2,932)	3,734	29,551	30,353
Acquired on acquisition of subsidiaries (Note 29)	–	–	1,403	1,403
Charge (credit) to profit or loss (Note 7)	1,849	(625)	(1,950)	(726)
Exchange realignment	80	(8)	(717)	(645)
At December 31, 2014	(1,003)	3,101	28,287	30,385

20. DEFERRED TAXATION (Continued)

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

	2014 US$'000	2013 US$'000
Deferred tax assets	(1,003)	(2,932)
Deferred tax liabilities	31,388	33,285
	30,385	30,353

At December 31, 2014, the Group had unused tax losses of approximately US$162.6 million (2013: approximately US$142.7 million) available for offset against future profits. A deferred tax asset has been recognised in respect of approximately US$4.0 million (2013: approximately US$11.8 million) of such losses. No deferred tax asset has been recognised in respect of the remaining unused tax loss of approximately US$158.6 million (2013: approximately US$130.9 million) due to the unpredictability of future profit streams.

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from January 1, 2008. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of PRC subsidiaries amounting to approximately US$451 million (2013: US$380 million) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Included in these accumulated profits of PRC subsidiaries are profits arising from PRC associates and joint ventures that are equity accounted for in the Group's consolidated financial statements amounting to approximately US$0.5 million (2013: approximately US$3 million). The Group is able to control the timing of the reversal of such temporary differences as these investments are made through PRC subsidiaries and it is probable that the temporary differences will not reverse in the foreseeable future.

Under the relevant laws of Republic of China, withholding tax is also imposed on dividend declared in respect of profits earned by the Taiwanese subsidiaries. The aggregate amount of temporary differences associated with undistributed earnings of those subsidiaries for which deferred tax liabilities have not been recognised was approximately US$1.9 million (2013: approximately US$3.6 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

21. INVENTORIES

	2014 US$'000	2013 US$'000
Raw materials	16	658
Work in progress	40	1,103
Finished goods	597,123	629,834
	597,179	631,595

22. TRADE AND OTHER RECEIVABLES

	2014 US$'000	2013 US$'000
Trade receivables (note i)	168,535	165,392
Deposits, prepayments and other receivables	147,693	184,047
	316,228	349,439
Deposits, prepayments and other receivables represent:		
Rental deposits and prepaid rentals	22,464	24,065
Prepayments paid to suppliers	42,671	78,175
Value-added tax recoverable	41,069	36,019
Amounts due from related parties (note ii)	16,232	11,614
Other prepaid expenses	5,215	4,043
Prepaid lease payments – current (Note 11(b))	650	667
Long-term loan receivables – due within one year (Note 18)	–	2,090
Other deposits and receivables	19,392	27,374
	147,693	184,047

22. TRADE AND OTHER RECEIVABLES (Continued)

notes:

(i) Included in trade receivables are trade balances with an associate and joint ventures of US$1,625,000 (2013: US$2,067,000). Details of the relevant transactions are set out in Note 35.

(ii) The amounts represent amounts due from certain joint ventures of US$9,759,000 (2013: US$7,638,000), a non-controlling interest of a subsidiary of US$4,826,000 (2013: nil) and certain entities controlled by Yue Yuen and its substantial shareholders of US$1,647,000 (2013: US$3,976,000), and are unsecured and expected to be recovered within one year. Except for the amounts of (a) US$4,557,000 (2013: US$3,742,000) due from certain joint ventures which carries variable interest rate ranging from 6.16% to 7.32% (2013: ranging from 6.16% to 6.72%) per annum and (b) US$4,826,000 (2013: nil) due from a non-controlling interest of a subsidiary which carries fixed interest rate of 7.28% per annum, the remaining balance is interest-free.

The Group generally 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 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:

	2014 US$'000	2013 US$'000
0 – 30 days	131,168	133,421
31 – 90 days	20,774	24,701
Over 90 days	16,593	7,270
	168,535	165,392

Included in the Group's trade receivable balance are debtors with an aggregate carrying amount of US$18,890,000 (2013: US$9,845,000) which were past due at the end of the reporting period and for which the Group has not provided for impairment loss because management is of the opinion that the fundamental credit quality of these customers has not deteriorated. The Group does not hold any collateral over these balances.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

22. TRADE AND OTHER RECEIVABLES (Continued)

The aged analysis of trade receivables which are past due but not impaired is as follows:

	2014 US$'000	2013 US$'000
31 – 90 days	10,930	6,007
Over 90 days	7,960	3,838
	18,890	9,845

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer. Limits attributed to customers are reviewed periodically. Majority of the trade receivables that are neither past due nor impaired have no default payment history.

Movements in the allowance for doubtful debt are as follows:

	2014 US$'000	2013 US$'000
Balance at beginning of the year	6,287	4,210
Impairment loss recognised on trade receivables (Note 6(a))	2,262	2,650
Amount written off as uncollectible	(998)	(573)
Balance at the end of the year	7,551	6,287

23. STRUCTURED BANK DEPOSIT/BANK BALANCES AND CASH/BANK OVERDRAFTS

(a) Structured bank deposit

On December 26, 2013, the Group entered into a structured contract with a bank with a principal sum of RMB13,000,000 (equivalent to US$2,144,000). The investment is a principal-protected yield enhancement bank deposit and contains an embedded derivative, which represents the returns varying with the underlying investment portfolio of the structured bank deposit and comprises primarily of debt instrument products including government and corporate bonds. The principal amount together with the investment return would be repaid to the Group anytime upon request, and therefore, the amount is classified as current assets.

The structured bank deposit carried a minimum interest rate at 2.1% per annum plus a maximum additional interest rate of 1.5% per annum which was determined by reference to the returns of the underlying investments. The management considered the amount paid for the structured bank deposit approximates its fair value at the end of the reporting period and the fair value of the embedded derivative in the structured bank deposit as of the same date was insignificant.

During the year ended December 31, 2014, the structured bank deposit was repaid.

(b) Bank balances and cash

The bank balances are interest-bearing at market interest rates. All deposits have an original maturity of three months or less.

During the year ended December 31, 2014, the bank deposits carried variable interest rates ranging from 0.01% to 5.20% (2013: 0.01% to 4.50%) per annum.

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

	2014 US$'000	2013 US$'000
USD	3,465	5,685
Hong Kong dollars ("HKD")	2,125	1,880
	5,590	7,565

(c) Bank overdrafts

Bank overdrafts carried interest at market rates ranging from 5.88% to 6.16% (2013: 6% to 6.16%) per annum during the year ended December 31, 2014.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

24. ASSETS CLASSIFIED AS HELD FOR SALE/LIABILITIES ASSOCIATED WITH ASSETS CLASSIFIED AS HELD FOR SALE

	2013 US$'000
Amount comprises:	
Property, plant and equipment	4,129
Inventories	10,690
Trade and other receivables	5,983
Taxation recoverable	110
Bank balances and cash	1,155
Total assets classified as held for sale	22,067
Trade and other payables	8,604
Bank borrowings	8,246
Total liabilities associated with assets classified as held for sale	16,850

On December 16, 2013, the Group entered into a sale and purchase agreement with a subsidiary of Yue Yuen, pursuant to which the parties agreed to, amongst other matters, the disposal of the Group's entire interests in 淮濱裕盛體育用品有限公司 Huaibin Yue-Shen Sports Goods Company Limited and 鐘祥裕盛體育用品有限公司 Zhongxiang Yue-Shen Sports Goods Company Limited, wholly owned subsidiaries of the Group (collectively be referred to as the "the Disposal Group") for a consideration of US$5,217,000.

The assets and liabilities attributable to the Disposal Group, which are expected to be sold within twelve months from December 31, 2013, have been classified as assets held for sale and liabilities associated with assets classified as held for sale respectively, and are presented separately in the consolidated statement of financial position as at December 31, 2013.

Details of the transaction are set out in an announcement issued by the Company on December 16, 2013. The transaction was completed in January 2014.

25. TRADE AND OTHER PAYABLES

	2014 US$'000	2013 US$'000
Trade payables (note i)	83,389	98,912
Bills payables	264	387
Receipt in advance from customers	45,354	45,733
Amounts due to related and connected parties (note ii)	750	762
Accruals and other payables	77,099	76,155
	206,856	221,949

notes:

(i) Included in the amount are trade balances with an associate and joint ventures of US$2,631,000 (2013: US$130,000) and certain entities controlled by Yue Yuen of US$1,210,000 (2013: nil). Details of the relevant transactions are set out in Note 35.

(ii) The balance represents amounts due to non-controlling interests of subsidiaries. The entire amount is unsecured, non-interest bearing and repayable on demand.

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:

	2014 US$'000	2013 US$'000
0 – 30 days	81,559	97,769
31 – 90 days	1,216	838
Over 90 days	878	692
	83,653	99,299

The average credit period for payment of purchases of goods is ranging from 30 days to 60 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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26. BANK BORROWINGS

	2014 US$'000	2013 US$'000
The unsecured bank borrowings, interest-bearing at variable rates, are repayable:		
Within one year	196,545	197,382
More than one year, but not exceeding two years	–	50,000
	196,545	247,382
Less: amount included in current liabilities	(196,545)	(197,382)
Amount due after one year	–	50,000

The Group's variable rate borrowings carry interests at margins over Hong Kong Interbank Offer Rate ("HIBOR"), London Interbank Offer Rate ("LIBOR") or prevailing rate quoted by the PBOC, as appropriate. Interest is repriced every one to six months.

The range of effective interest rates (which are also equal to contracted interest rates) on the Group's bank borrowings are as follows:

	2014	2013
Effective interest rate:		
Variable rate borrowings	1.49% – 6.33%	1.44% – 7.02%

The Group's bank borrowings that are denominated in a currency other than the functional currency of the relevant group entities are set out below:

	2014 US$'000	2013 US$'000
USD	58,610	171,747

27. SHARE CAPITAL

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

	2014 US$'000	2013 US$'000
Shown in the consolidated financial statements	6,909	6,909

notes:

(i) In prior years, the Group completed the acquisition of the remaining 50% interest in a then joint venture not already owned by the Group by agreeing the issue of a maximum of 33,990,000 ordinary shares of HK$0.01 each as part of the consideration, of which 6,330,000 ordinary shares were issued during each of the year ended September 30, 2011, the fifteen months ended December 31, 2012 and the year ended December 31, 2013.

(ii) In prior years, the Group completed the acquisition of a chain of retail stores in the PRC, including the related tangible and intangible assets, owned by an independent third party and its related parties by agreeing to issue of a maximum of 39,634,662 ordinary shares of HK$0.01 each with restriction as part of the consideration. All of these shares have been issued during the year ended December 31, 2013.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

28. INFORMATION OF THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2014 US$'000	2013 US$'000
ASSETS AND LIABILITIES		
Property, plant and equipment	19	33
Investments in subsidiaries, unlisted	183,314	179,825
Other receivables	1,077	1,282
Amounts due from subsidiaries	606,477	606,291
Bank balances and cash	3,779	2,593
Total assets	794,666	790,024
Other payables	1,521	1,099
Amounts due to subsidiaries	36,882	23,697
Bank borrowings	105,759	104,247
Total liabilities	144,162	129,043
	650,504	660,981
CAPITAL AND RESERVES		
Share capital	6,909	6,909
Reserves (note)	643,595	654,072
	650,504	660,981

28. INFORMATION OF THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

note:

Movements of the Company's reserves are as follows:

	Reserves US$'000	Accumulated losses US$'000	Total US$'000
At January 1, 2013	674,838	(27,852)	646,986
Profit and total comprehensive income for the year	–	4,153	4,153
Issue of shares for acquisition of subsidiaries and business	3,778	–	3,778
Recognition of equity-settled share-based payment, net of amounts forfeited relating to share options not yet vested	(845)	–	(845)
At December 31, 2013	677,771	(23,699)	654,072
Loss and total comprehensive expense for the year	–	(9,392)	(9,392)
Purchase of shares under share award scheme	(1,168)	–	(1,168)
Recognition of equity-settled share-based payment, net of amounts forfeited relating to share options and share awards not yet vested	83	–	83
At December 31, 2014	676,686	(33,091)	643,595

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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29. ACQUISITION OF SUBSIDIARIES

For the year ended December 31, 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 of sportswear products and footwear products 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

	US$'000
Fair value of assets acquired and liabilities recognised at the date of acquisition are as follow:	
Property, plant and equipment	109
Rental deposits and prepayments	703
Intangible assets	5,900
Inventories	4,375
Trade and other receivables (note i)	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
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 ii)	15

29. ACQUISITION OF SUBSIDIARIES (Continued)

notes:

(i) 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.

(ii) The acquisition-related cost was recognised as an expense during the year.

(iii) Pro-forma revenue and profit

Included in the profit for the year ended December 31, 2014 was loss of US$51,000 attributable to the additional businesses generated by Welcome Wealth Group. Revenue for the year ended December 31, 2014 included US$26,331,000 generated from Welcome Wealth Group. Had the acquisition been completed on January 1, 2014, total group revenue for the year ended December 31, 2014 would have been US$1,987,986,000, and the profit for the same year would have been US$6,260,000. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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30. OPERATING LEASES

(a) The Group as lessee

The Group made the following lease payments during the year:

	2014 US$'000	2013 US$'000
Operating lease rentals and concessionaire fees in respect of:		
Minimum lease payments:		
– street level stores	25,793	28,127
– shopping mall stores	31,306	26,823
– other properties	8,465	8,645
	65,564	63,595
Contingent rentals:		
– shopping mall stores	180,235	157,379
	245,799	220,974
Representing:		
– shopping malls/retail outlets (included in selling and distribution expenses)	239,727	215,250
– offices (included in administrative expenses)	6,072	5,724
	245,799	220,974

At the end of the reporting period, the Group had commitments for non-cancellable future minimum lease payments for retail shops and other properties under non-cancellable operating leases which fall due as follows:

	2014 US$'000	2013 US$'000
Within one year	43,129	52,011
In the second to fifth year inclusive	45,954	70,816
Over five years	15,812	23,660
	104,895	146,487

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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30. OPERATING LEASES (Continued)

(a) The Group as lessee (Continued)

The above lease commitments represent basic rents only and do not include contingent rents payable in respect of certain retail shops leased by the Group. In general, these contingent rents are calculated with reference to the relevant retail shops' revenue using pre-determined formulae. It is not possible to estimate in advance the amount of such contingent rents payable.

Majority of the leases are negotiated for lease terms of 2 to 5 years.

(b) The Group as lessor

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease receipts in respect of shopping mall counter areas rented out:

	2014 US$'000	2013 US$'000
Within one year	5,094	4,238
In the second to fifth year inclusive	8,549	5,050
Over five years	6,692	7,387
	20,335	16,675

In addition to the basic rental receipts as disclosed above, the lease agreements with the tenants also include provision for the payment of contingent rents to the Group. In general, these contingent rents are calculated with reference to the revenue generated by the tenants operating in the Group's retailing complex using pre-determined formulae. It is not possible to estimate in advance the amount of such contingent rents receivable. Rental income received by the Group during the year amounted to US$15,439,000 (2013: US$13,933,000), included in which was contingent rental income arising from contingent terms of lease contracts of US$11,202,000 (2013: US$11,602,000).

31. CAPITAL COMMITMENTS

	2014 US$'000	2013 US$'000
Capital expenditures contracted for but not provided in the consolidated financial statements in respect of acquisition of the remaining interests in a joint venture	–	11,565

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32. CONTINGENT LIABILITIES

At the end of the reporting period, the Group had contingent liabilities as follow:

	2014 US$'000	2013 US$'000
Guarantee given to banks in respect of banking facilities granted to joint ventures		
– amount guaranteed	4,424	4,535
– amount utilised	1,609	3,832

33. SHARE OPTION SCHEME AND SHARE AWARD SCHEME

(a) Share Option Scheme

The Company's share option scheme (the " Share Option Scheme") was adopted pursuant to a shareholders' resolution passed on May 14, 2008 for the primary purpose to attract and retain personnel, to provide incentives to eligible participants to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole, and will expire on May 13, 2018. Under the Share Option Scheme, the Board of Directors of the Company may grant options to eligible persons, including directors and employees of the Company and its subsidiaries, to subscribe for shares in the Company.

Without prior approval from the Group's shareholder, (i) the total number of shares in respect of which options may be granted under the Share Option Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time; (ii) the number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time; and (iii) options in excess of 0.1% of the Company's share capital or with a value in excess of HK$5 million may not be granted to substantial shareholders or independent non-executive directors.

Options are exercisable over the vesting periods to be determined by the Board of Directors, but in no case after the tenth anniversary of the date of grant. The exercise price is determined by the Board of Directors of the Company, and will not be less than the highest of (i) the closing price of the Company's shares on the date of grant; (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

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

(a) Share Option Scheme (Continued)

The following tables disclose movements in the Company's share options under the Share Option Scheme during the two years ended December 31, 2014:

	Date of grant	Exercise price HK$	Exercisable period	Number of options outstanding at January 1, 2013	Lapsed/ cancelled during the year	Number of options outstanding at December 31, 2013	Lapsed/ cancelled during the year	Number of options outstanding at December 31, 2014
Current and former Employees/consultants								
	21.1.2010	1.62	21.1.2011 - 20.1.2018	6,159,000	(1,658,550)	4,500,450	-	4,500,450
	21.1.2010	1.62	21.1.2012 - 20.1.2018	6,159,000	(1,658,550)	4,500,450	-	4,500,450
	21.1.2010	1.62	21.1.2013 - 20.1.2018	10,368,000	(3,578,100)	6,789,900	-	6,789,900
	21.1.2010	1.62	21.1.2014 - 20.1.2018	13,824,000	(6,102,800)	7,721,200	(400,000)	7,321,200
	20.1.2011	1.23	20.1.2012 - 19.1.2019	11,737,500	-	11,737,500	-	11,737,500
	20.1.2011	1.23	20.1.2013 - 19.1.2019	8,362,500	(375,000)	7,987,500	-	7,987,500
	20.1.2011	1.23	20.1.2014 - 19.1.2019	8,362,500	(2,385,000)	5,977,500	(477,500)	5,500,000
	20.1.2011	1.23	20.1.2015 - 19.1.2019	8,362,500	(2,385,000)	5,977,500	(1,177,500)	4,800,000
	07.3.2012	1.05	07.3.2013 - 06.3.2020	750,000	-	750,000	-	750,000
	07.3.2012	1.05	07.3.2014 - 06.3.2020	750,000	(375,000)	375,000	-	375,000
	07.3.2012	1.05	07.3.2015 - 06.3.2020	750,000	(375,000)	375,000	-	375,000
	07.3.2012	1.05	07.3.2016 - 06.3.2020	750,000	(375,000)	375,000	-	375,000
Total				76,335,000	(19,268,000)	57,067,000	(2,055,000)	55,012,000
Exercisable as at January 1, 2013, December 31, 2013 and December 31, 2014				24,055,500		36,265,800		49,462,000

During the year ended December 31, 2014, the Group recognised a net expense of US$1,000 (2013: net income of US$51,000) as equity-settled share-based payments in the consolidated income statement under the Share Option Scheme with reference to the share options' respective vesting periods and the share options lapsed prior to their vesting dates after recognising share option expenses of US$159,000 (2013: US$662,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

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

(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.

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 (including but not limited to exceptionally poor performance, misconduct or material breach of the terms of employment or rules or policies of the Company). 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 year ended December 31, 2014, 20,000,000 ordinary shares of the Company were acquired for an aggregate cost of HK$9,084,000 (equivalent to approximately US$1,168,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

(b) Share Award Scheme (Continued)

The following table discloses movements in the Company's share awards under the Share Award Scheme during the year ended December 31, 2014:

Director	Date of grant	Vesting date	Number of share awards outstanding at January 1, 2014	Granted during the year	Lapsed/ cancelled during the year	Number of share awards outstanding at December 31, 2014
Kwan, Heh-Der	1.9.2014	1.9.2017	-	1,200,000	-	1,200,000
Employees	1.9.2014	1.9.2017	-	11,000,000	(700,000)	10,300,000
Total			-	12,200,000	(700,000)	11,500,000

The fair values of the share awards as at the date of grant, determined by APAC Asset Valuation using the Black-Scholes Option Pricing Model, amounted to HK$6,100,000 (equivalent to approximately US$787,000). The key inputs into the Black-Scholes Option Pricing Model are as follows:

Date of grant	September 1, 2014
Closing share price at the date of grant	HK$0.72
Annual risk free rate	0.71%
Expected volatility	47%
Vesting period	3 years
Expected dividend yield	Nil

The closing price of the Company's shares immediately before the grant of the awards on September 1, 2014 was HK$0.75 per share.

During the year ended December 31, 2014, the Group recognised US$82,000 as equity-settled share-based payments in the consolidated income statement under the Share Award Scheme.

The Board of Directors of the Company approved on March 20, 2015 to grant an aggregate of 8,900,000 awarded shares to certain employees of the Group pursuant to the Share Award Scheme.

34. RETIREMENT BENEFIT PLANS

The employees employed in the PRC are members of the state-managed retirement benefit schemes operated by the PRC government. The PRC subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefit schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefit schemes is to make the required contributions under the schemes.

The Group also operates a MPF Scheme for all its qualifying employees in Hong Kong. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. Under the rule of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rate specified in the rules.

The total cost of US$20,235,000 (2013: US$18,214,000) charged to profit or loss represents contribution paid or payable to the above retirement benefit plans by the Group for the year.

At the end of the reporting period, the Group had no significant obligation apart from the contribution as stated above.

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FOR THE YEAR ENDED DECEMBER 31, 2014

35. RELATED AND CONNECTED PARTY DISCLOSURES

(a) Transactions and trade balances

The Group had the following related and connected party transactions and trade balances:

Relationship	Nature of transactions/balances	2014 US$'000	2013 US$'000
Yue Yuen			
Yue Yuen and its affiliates (note)	Processing income received by the Group	96	743
	Purchase of footwear products by the Group	8,727	-
	Interest expense paid by the Group	1,780	1,198
	Trade payables of the Group at the end of the reporting period	1,210	-
	Consideration received for sales of manufacturing equipment by the Group	-	4,841
	Consideration received for disposal of subsidiaries	5,217	-
An associate and joint ventures of the Group			
An associate	Trade receivables of the Group at the end of the reporting period	300	315
	Trade payables of the Group at the end of the reporting period	-	85
Joint ventures	Sales of sportswear products by the Group	3,529	3,905
	Purchase of footwear products by the Group	3,082	-
	Interest income received by the Group	960	1,055
	Trade receivables of the Group at the end of the reporting period	1,325	1,752
	Trade payables of the Group at the end of the reporting period	2,631	45

note: Other than these transactions, none of the other transactions in the table above falls under the definition of "connected transaction" or "continuing connected transaction" (as the case may be) under the Listing Rules.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

35. RELATED AND CONNECTED PARTY DISCLOSURES (Continued)

(b) Non-trade balances

Details of the Group's non-trade balances with related and connected parties are set out on the consolidated statement of financial position and in Notes 15, 16, 22 and 25.

(c) Guarantees

The Group's bank borrowings were secured by guarantees given by:

	2014 US$'000	2013 US$'000
Non-controlling interests of subsidiaries on a joint and several basis (note)	–	3,232

note: these entities are not considered to be connected persons of the Company.

Details of the Group's guarantees to certain joint ventures are set out in Note 32.

In addition, the Company is 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, and any breach of such obligation will cause a default in respect of the relevant loans. At December 31, 2013, the aggregate balance of bank borrowings under such facilities was approximately US$60,000,000. All of such covenants had been removed from the terms of the relevant loans as at December 31, 2014.

(d) Compensation of key management personnel

	2014 US$'000	2013 US$'000
Short term benefits	2,652	1,945
Post employment benefits	2	2
Equity-settled share-based payments	71	115
	2,725	2,062

The remuneration of directors and key executives is determined having regard to the performance of the individuals.

36. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debts, which include the borrowings disclosed in Note 26, and equity attributable to owners of the Company, comprising issued share capital, various reserves and accumulated profits.

The directors review the capital structure on a regular basis. As part of this review, the directors assess the annual budget prepared by the accounting and treasury department and consider and evaluate the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends, the issue of new shares as well as the issue of new debt or the redemption of the existing debt.

37. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2014 US$'000	2013 US$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	267,340	292,539
Financial liabilities		
Amortised cost	304,555	386,964
Consideration payable for acquisition of business	16,436	18,016

(b) Financial risk management objectives

The Group's major financial instruments include long-term loan receivables, loans to joint ventures, trade and other receivables, bank balances and cash, structured bank deposit, bank overdrafts, trade and other payables, consideration payable for acquisition of business and bank borrowings. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include market risk (interest rate risk and foreign exchange risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

37. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives (Continued)

Market risk

(i) Interest rate risk

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank balances (Note 23), structured bank deposit (Note 23), bank overdrafts (Note 23), loans to joint ventures (Note 16), loan receivables (Note 18), amounts due from related parties (Note 22) and bank borrowings (Note 26). Management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. Fluctuations of HIBOR, LIBOR and prevailing rate quoted by the PBOC are the major sources of the Group's cash flow interest rate risks.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates of the financial instruments set out above. The analysis is prepared assuming all of the above amounts outstanding at the end of the reporting period were outstanding for the whole year. A 10 basis point increase or decrease for bank balances in the PRC and 50 basis points for other financial assets and financial liabilities set out above are used and represent management's assessment of the reasonably possible change in interest rates for each of the two years ended December 31, 2014.

If interest rates on the above interest-bearing financial assets had been 10 or 50 basis points higher/lower, as appropriate, and all other variables were held constant, the Group's profit for the year would increase/decrease by US$156,000 (2013: loss for the year would decrease/increase by US$185,000).

If interest rates on the above interest-bearing financial liabilities had been 50 basis points higher/lower and all other variables were held constant, the Group's profit for the year would decrease/increase by US$737,000 (2013: loss for the year would increase/decrease by US$1,004,000).

In management's opinion, the sensitivity analysis does not necessarily represent the inherent interest rate risk as the year end exposure does not reflect the exposure during the year.

37. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives (Continued)

Market risk (Continued)

(ii) Foreign exchange risk

Certain subsidiaries of the Company have foreign currency bank balances and bank borrowings as detailed in Notes 23 and 26, respectively, which expose the Group to foreign exchange risk, whilst over 99% (2013: over 97%) of the Group's sales and purchases are denominated in the respective group entities' functional currency.

Sensitivity analysis

The following is the Group's sensitivity to a 5% increase and decrease in RMB against USD. 5% is the sensitivity rate used and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rates. The sensitivity analysis mainly includes the Group's USD bank balances and bank borrowings. Where RMB strengthens against USD by 5%, the Group's profit for the year would increase by US$2,068,000 (2013: loss for the year would decrease by US$6,227,000), while a 5% weakening of RMB against USD, there would be an equal and opposite impact on the profit/loss.

In management's opinion, the sensitivity analysis is not necessarily of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

Credit risk

As at December 31, 2013 and 2014, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties and financial guarantees provided by the Group is arising from:

- the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position; and

- the amount of contingent liabilities in relation to financial guarantees issued by the Group as disclosed in Note 32.

The Group's customer base is diverse and the trade receivables consist of a large number of customers. In order to minimise the credit risk arising from its open account sales, management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up actions are taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are provided for irrecoverable amounts. In this regard, the directors consider that the credit risk is significantly reduced.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

37. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives (Continued)

Credit risk (Continued)

In addition to the credit risk on trade debts, the Group is also exposed to concentration of credit risk on its advances to, and guarantees granted to banks on behalf of certain joint ventures, which account for 6% (2013: 8%) of its loans and receivables. Such sums are secured by the equity interests of the other joint venture partners in these entities as collateral for the advances. In addition, because of the Group's involvement in the management of these entities, the Group is in a position to monitor their financial performance and would take timely actions to safeguard its assets and/or to minimise its losses. Accordingly, management believes that the Group's exposure to the credit risk associated with these loans is significantly reduced.

The Group's concentration of credit risk by geographical locations is mainly in PRC, which covered over 96% (2013: over 98%) of its total receivables as at December 31, 2014.

The credit risk on liquid funds is limited because the counterparties are banks with good reputation.

Liquidity risk

The Group relies on bank borrowings as a significant source of liquidity. Details of which are set out in Note 26.

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

The following table details the contractual maturity of the Group's financial liabilities based on the agreed repayment terms. For non-derivative financial liabilities, the table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is based on the interest rate at the end of the reporting periods.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

37. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives (Continued)

Liquidity risk (Continued)

	Weighted average interest rate %	0 to 30 days US$'000	31 to 90 days US$'000	91 to 365 days US$'000	Over 1 year US$'000	Total undiscounted cash flows US$'000	Carrying amount US$'000
As at December 31, 2014							
Non-interest bearing	-	105,916	1,216	878	-	108,010	108,010
Variable interest rate instruments	3.91	94,120	103,184	-	-	197,304	196,545
		200,036	104,400	878	-	305,314	304,555
Financial guarantee contracts	-	4,424	-	-	-	4,424	-
Consideration payable for acquisition of business	-	-	-	-	16,436	16,436	16,436

	Weighted average interest rate %	0 to 30 days US$'000	31 to 90 days US$'000	91 to 365 days US$'000	Over 1 year US$'000	Total undiscounted cash flows US$'000	Carrying amount US$'000
As at December 31, 2013							
Non-interest bearing	-	117,832	838	692	-	119,362	119,362
Variable interest rate instruments	4.23	193,461	11,578	13,151	52,113	270,303	267,602
		311,293	12,416	13,843	52,113	389,665	386,964
Financial guarantee contracts	-	4,535	-	-	-	4,535	-
Consideration payable for acquisition of business	-	-	-	-	18,016	18,016	18,016

The amounts included above for variable interest rate instruments for non-derivative financial liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

37. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives (Continued)

Liquidity risk (Continued)

The amounts included above for financial guarantee contracts are the maximum amounts the Group can be required to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. Based on expectations at the end of the reporting period, the Group considers that it is more likely than not that no amount will be payable under the arrangement. However, this estimate is subject to change depending on the probability of the counterparty claiming under the guarantee which is a function of the likelihood that the financial receivables held by the counterparty which are guaranteed suffer credit losses.

(c) 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 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 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 as set out in Note 3) based on the degree to which the inputs to the fair value measurements is observable.

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 December 31,		
	2014 US$'000	2013 US$'000	Fair value hierarchy
Financial asset			
Structured bank deposit (note a)	–	2,144	Level 3
Financial liability			
Consideration payable for acquisition of business (note b)	16,436	18,016	Level 3

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

37. FINANCIAL INSTRUMENTS (Continued)

(c) 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:

(a) The fair value of the structured bank deposit was based on its redemption price from the bank, where a significant key input in the valuation model was the yields of the underlying debt instruments.

(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, 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.

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

The key inputs into the model are set out below:

	2014	2013
Share price at date of valuation	HK$0.74	HK$0.4
Exercise price per share	HK$4.0	HK$4.0
Risk free rate	0.58%	0.65%
Expected volatility	47%	44%
Expected life of the guaranteed compensation	1.89 years	2.89 years
Expected dividend yield	Nil	Nil

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

37. FINANCIAL INSTRUMENTS (Continued)

(c) 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 year:

	Structured bank deposit US$'000	Consideration payable for acquisition of business US$'000
At January 1, 2013	–	(17,980)
Fair value loss, recognised in profit or loss (Note 6(c))	–	(43)
Purchase	2,144	–
Exchange realignment	–	7
At December 31, 2013	2,144	(18,016)
Fair value gain, recognised in profit or loss (Note 6(c))	–	1,576
Purchase	9,743	–
Released on maturity	(11,887)	–
Exchange realignment	–	4
At December 31, 2014	–	(16,436)

(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 the year.

(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 consolidated financial statements approximate their fair values at the end of the reporting period.

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38. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries as at December 31, 2014 and 2013:

Name of subsidiary	Country/ Place of incorporation or establishment/ operation	Issued and fully paid share capital/ registered capital	Attributable equity interests held (note i) 2014	2013	Principal activities
YY Sports Holdings Limited ("YY Sports") (note i)	BVI	US$1	100%	100%	Investment holding
A - Grade Holdings Limited	BVI	US$9,000	100%	100%	Investment holding
Baosheng Daoji (Beijing) Trading Company Limited 寶盛道吉(北京)貿易有限公司(note ii)	PRC	US$40,000,000	100%	100%	Retailing of sportswear
太倉勝道商貿有限公司(note ii)	PRC	US$5,000,000	100%	100%	Distribution of licenced products
Brightup Group Limited	HK	HK$1	100%	100%	Investment holding
Charming Technology Limited	BVI	US$200	100%	100%	Investment holding
Dalian Dongzhijie Sports Production Development Company Limited 大連東之杰運動產業發展有限公司(note ii)	PRC	RMB200,000,000	100%	100%	Retailing of sportswear
Diodite Limited	BVI	US$1	100%	100%	Investment holding
Diodite (China) Sports Good Co., Ltd. 笛亞泰(中國)體育用品有限公司(note ii)	PRC	US$20,000,000	100%	100%	Retailing of sportswear
Dragonlight Group Limited	BVI	US$1	100%	100%	Investment holding
Dragon Light (China) Sporting Goods Co., Ltd. 龍光(中國)體育用品有限公司(note ii)	PRC	US$66,000,000	100%	100%	Investment holding
Farsighted International Limited	BVI	US$100	100%	100%	Investment holding
Favour Mark Holdings Limited	HK	HK$15,104,250	100%	100%	Investment holding
Fujian Baomin Sporting Goods, Co., Ltd. 福建寶閩體育用品有限公司(note ii)	PRC	US$4,500,000	90%	90%	Retailing of sportswear
Guangzhou Baoyuen Trading Company Limited 廣州寶元貿易有限公司(note ii)	PRC	US$23,310,000	100%	100%	Retailing of sportswear

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

38. PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Country/ Place of incorporation or establishment/ operation	Issued and fully paid share capital/ registered capital	Attributable equity interests held (note i) 2014	2013	Principal activities
Guangzhou Shengdao Sports Goods Company Limited 廣州勝道體育用品有限公司(note iv)	PRC	RMB20,000,000	100%	100%	Property leasing and management
Guangzhou Yangji Information Technology Company Limited 廣州市揚基信息科技有限公司(note ii)	PRC	HK$13,000,000	100%	100%	Retailing of sportswear
Guiyang Baoxin Sports Goods Company Limited 貴陽寶新體育用品有限公司(note ii)	PRC	US$10,000,000	100%	100%	Retailing of sportswear
Guizhou Shengdao Sports Goods Development Company Limited 貴州勝道體育用品開發有限公司(note iv)	PRC	RMB70,000,000	100%	100%	Property leasing and management
Harbin Baosheng Sports Goods Company Limited 哈爾濱寶勝體育用品有限公司(note iv)	PRC	RMB7,000,000	100%	100%	Retailing of sportswear
Hebei Zhanxin Sports Development Company Limited 河北展新體育發展有限公司	PRC	RMB18,180,000	100%	100%	Retailing of sportswear
Hefei Baoxun Sports Goods Trading Company Limited 合肥寶勳體育用品商貿有限公司(note iv)	PRC	RMB1,000,000	100%	100%	Retailing of sportswear
Hillside Investments Limited	HK	HK$200	100%	100%	Investment holding
Kunshan YYsports Information Technology Co., Ltd. 昆山勝道信息技術有限公司	PRC	US$3,000,000	100%	100%	Retailing of sportswear
Kunshan Xin Dong Sports Co. Ltd. 昆山信動體育用品有限公司	PRC	US$999,000	100%	100%	Retailing of sportswear
Kunshan Pouchi Sports Co., Ltd. 昆山寶慈體育用品有限公司	PRC	US$13,500,000	100%	100%	Distribution of licensed products
Kunshan Taisong Trading Co. Ltd. 昆山泰崧精品企業股份有限公司(note v)	PRC	US$14,000,000	100%	N/A	Distribution of licensed products

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

38. PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Country/ Place of incorporation or establishment/ operation	Issued and fully paid share capital/ registered capital	Attributable equity interests held (note i) 2014	2013	Principal activities
Nanning Pou Guan Sporting Goods Company Limited 南寧寶冠體育用品有限公司(note ii)	PRC	US$1,300,000	100%	100%	Retailing of sportswear
Nice Palace Investments Limited	HK	HK$200	100%	100%	Investment holding
Pau Yuen Trading Corporation 寶原興業股份有限公司	Taiwan	NTD50,000,000	90%	90%	Distribution of licenced products
Pau Zhi Trading Corporation 寶智企業股份有限公司	Taiwan	NTD5,000,000	90%	90%	Retailing of sportswear
Pou Sheng (China) Investment Co., Ltd. 常勝投資有限公司	PRC	US$102,922,400	100%	100%	Investment holding
Pou Sheng International Sports Development Company Limited 寶勝國際體育發展有限公司	HK	HK$100	100%	100%	Investment holding
Pou Yu (Chengdu) Trading Co., Ltd. 寶渝(成都)商貿有限公司(note ii)	PRC	US$22,400,000	100%	100%	Retailing of sportswear
Profit Concept Group Limited	BVI	US$100	51%	51%	Investment holding
Qingdao Baoruina Sports Goods Company Limited 青島寶瑞納體育用品有限公司(note iii)	PRC	RMB20,000,000	72%	72%	Retailing of sportswear
Qujing Shengdao Sports Goods Co., Ltd. 曲靖勝道體育用品有限公司(note iv)	PRC	RMB35,000,000	60%	60%	Property leasing and management
Rainbow Faith Investments Limited	HK	HK$200	100%	100%	Investment holding
Richwin Management Limited	BVI	US$1	100%	100%	Investment holding
Selangor Gold Limited	BVI	US$1,000	100%	100%	Investment holding
Shanghai Baoyuen Sports Goods Company Limited 上海寶原體育用品商貿有限公司(note ii)	PRC	US$30,000,000	100%	100%	Retailing of sportswear
Shanghai Shengdao Sports Goods Company Limited 上海勝道體育用品有限公司(note iv)	PRC	RMB5,100,000	100%	100%	Property leasing and management

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38. PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Country/ Place of incorporation or establishment/ operation	Issued and fully paid share capital/ registered capital	Attributable equity interests held (note i) 2014	2013	Principal activities
Sheng Dao (Yangzhou) Sporting Goods Dev. Co., Ltd. 勝道(揚州)體育用品開發有限公司(note ii)	PRC	US$66,000,000	100%	100%	Investment holding
Shengyang Bao Yi Trading Company Limited 瀋陽寶益貿易有限公司(note iv)	PRC	RMB10,000,000	100%	100%	Retailing of sportswear
Silver Empire Limited 肇昌有限公司(note v)	HK	HK$1,000	100%	N/A	Investment holding
Taicang Yusheng Moulding Company Limited 太倉裕盛模具有限公司(note ii)	PRC	US$2,100,000	100%	100%	Manufacturing of shoe moulds
Taiwan Taisong Trading Co. Ltd. 台灣泰崧精品企業有限公司(note v)	Taiwan	NTD30,000,000	100%	N/A	Distribution of licensed products
Tianjin Baoxin Sports Goods Company Limited 天津寶信體育用品有限公司(note iv)	PRC	RMB1,000,000	100%	100%	Retailing of sportswear
Treasure Chain International Limited	BVI	US$1	100%	100%	Investment holding
Welcome Wealth Properties Limited (note v)	BVI	US$4	100%	N/A	Investment holding
Wellmax Business Group Limited	BVI	US$9,000	100%	100%	Investment holding
Winning Team Holdings Limited	BVI	US$1	100%	100%	Investment holding
Wisesport Limited 體智有限公司(note v)	BVI	US$1	100%	N/A	Investment holding
Wuxi Baoyuen Sports Goods Trading Company Limited 無錫寶原體育用品商貿有限公司(note iv)	PRC	RMB1,000,000	100%	100%	Retailing of sportswear
Xian Bao Qin Trading Company Ltd. 西安寶秦貿易有限公司(note ii)	PRC	US$41,000,000	100%	100%	Retailing of sportswear
Yue-Shen (Taicang) Footwear Co., Ltd. 裕盛(太倉)鞋業有限公司(note ii)	PRC	US$15,000,000	100%	100%	Manufacturing of sportswear

38. PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Country/ Place of incorporation or establishment/ operation	Issued and fully paid share capital/ registered capital	Attributable equity interests held (note i) 2014	2013	Principal activities
Yue Ming International Limited	HK	HK$1	100%	100%	Retailing of sportswear
Yue Sheng (Kunshan) Sports Co., Ltd. 裕晟(昆山)體育用品有限公司(note ii)	PRC	US$14,200,000	100%	100%	Manufacturing of sportswear
Yunnan Orientsport Trading Co., Ltd. 雲南奥龍世博經貿有限公司(note ii)	PRC	RMB56,100,000	51%	51%	Retailing of sportswear
Yunnan Shengdao Sports Goods Company Limited 雲南勝道體育用品有限公司(note iv)	PRC	RMB87,500,000	60%	60%	Property leasing and management
Zhejiang Yichuan Sports Goods Chain Company Limited 浙江易川體育用品連鎖有限公司(note iv)	PRC	RMB164,000,000	100%	100%	Retailing of sportswear

notes:

(i) The Company directly holds the interest in YY Sports. All other interests shown are indirectly held by the Company.

(ii) These entities are wholly-foreign owned enterprises established in the PRC.

(iii) These entities are sino-foreign owned enterprises established in the PRC.

(iv) These entities are wholly-domestic owned enterprises established in the PRC.

(v) These entities were acquired during the year.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had issued any debt securities during the year or at the end of the year.

FINANCIAL SUMMARY

FOR THE YEAR ENDED DECEMBER 31, 2014

RESULTS

	For the year ended September 30,		For the fifteen months ended December 31,	For the year ended December 31,	
	2010 US$'000	2011 US$'000	2012 US$'000	2013 US$'000	2014 US$'000
Revenue	1,323,845	1,589,802	2,182,450	1,777,187	1,980,575
Profit (loss) for the year/period	20,167	54,810	(68,417)	(38,497)	6,488
Attributable to:					
Owners of the Company	21,287	53,670	(69,151)	(38,670)	4,649
Non-controlling interests	(1,120)	1,140	734	173	1,839
	20,167	54,810	(68,417)	(38,497)	6,488

ASSETS AND LIABILITIES

	As at September 30,		As at December 31,		
	2010 US$'000	2011 US$'000	2012 US$'000	2013 US$'000	2014 US$'000
Total assets	1,211,118	1,372,769	1,500,410	1,459,807	1,328,462
Total liabilities	(406,793)	(483,465)	(582,338)	(562,875)	(453,192)
	804,325	889,304	918,072	896,932	875,270
Equity attributable to:					
Owners of the Company	790,317	874,332	901,723	880,914	860,706
Non-controlling interests	14,008	14,972	16,349	16,018	14,564
	804,325	889,304	918,072	896,932	875,270