
**POU SHENG INTERNATIONAL (HOLDINGS) LIMITED**

**寶 勝 國 際（控 股）有 限 公 司**

(Incorporated in Bermuda with limited liability)

(Stock Code：3813)

# CONTENTS

## THE GROUP'S FINANCIAL HIGHLIGHTS

| | For the six months ended June 30, 2013 | 2012 | Percentage increase (decrease) |
|---|---|---|---|
| Revenue *(US$'000)* | **886,245** | 887,799 | **(0.2)%** |
| Operating profit (loss) *(US$'000)* | **7,646** | (678) | **-** |
| Loss attributable to owners of the Company *(US$'000)* | **(16,582)** | (37,243) | **55.5%** |
| Basic loss per share *(US cent)* | **(0.31)** | (0.86) | **64.0%** |

# INTERIM RESULTS

The board (the "Board") of directors (the "Directors") of Pou Sheng International (Holdings) Limited (the "Company") is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended June 30, 2013 with comparative figures for the corresponding period in 2012 as follows:

## CONDENSED CONSOLIDATED INCOME STATEMENT

*For the six months ended June 30, 2013*

| | NOTES | For the six months ended June 30, 2013 US$'000 (unaudited) | 2012 US$'000 (unaudited) |
|---|---|---|---|
| Revenue | 3 | **886,245** | 887,799 |
| Cost of sales | | **(636,877)** | (620,779) |
| Gross profit | | **249,368** | 267,020 |
| Other income and gains/losses | | **11,366** | 6,008 |
| Selling and distribution expenses | | **(220,436)** | (233,303) |
| Administrative expenses | | **(32,652)** | (40,403) |
| Operating profit (loss) | | **7,646** | (678) |
| Interests on bank borrowings wholly repayable within five years | | **(8,026)** | (9,551) |
| Finance income | | **1,104** | 2,123 |
| Finance costs – net | | **(6,922)** | (7,428) |
| Share of results of associates | | **(192)** | 322 |
| Share of results of joint ventures | | **(3,339)** | (4,681) |
| Gain on disposal of properties | | **–** | 4,685 |
| Impairment losses of interests in an associate and joint ventures | | **–** | (7,497) |
| Impairment losses on loans to joint ventures | | **(2,443)** | – |
| Fair value changes on derivative financial instruments | | **281** | (14,655) |
| Fair value changes on consideration payable for acquisition of business | 14(c) | **(361)** | (1,542) |
| Loss before taxation | | **(5,330)** | (31,474) |
| Income tax expense | 4 | **(10,233)** | (4,505) |
| Loss for the period | 5 | **(15,563)** | (35,979) |
| Attributable to: | | | |
| Owners of the Company | | **(16,582)** | (37,243) |
| Non-controlling interests | | **1,019** | 1,264 |
| | | **(15,563)** | (35,979) |
| Loss per share | 7 | | |
| – Basic | | **US(0.31) cent** | US(0.86) cent |
| – Diluted | | **US(0.31) cent** | US(0.86) cent |

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*For the six months ended June 30, 2013*

| | For the six months ended June 30, | |
|---|---|---|
| | **2013** | 2012 |
| | **US$'000** | US$'000 |
| | **(unaudited)** | (unaudited) |
| Loss for the period | **(15,563)** | (35,979) |
| Other comprehensive income (expense) | | |
| *An item that will not be reclassified subsequently to profit or loss* | | |
| Exchange difference arising on translation | **7,794** | (5,838) |
| Total comprehensive expense for the period | **(7,769)** | (41,817) |
| Attributable to: | | |
| Owners of the Company | **(8,690)** | (43,004) |
| Non-controlling interests | **921** | 1,187 |
| | **(7,769)** | (41,817) |

# INTERIM RESULTS

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*At June 30, 2013*

| | NOTES | At June 30, 2013 US$'000 (unaudited) | At December 31, 2012 US$'000 (audited) |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 8 | **114,994** | 124,449 |
| Deposit paid for acquisition of property, plant and equipment | | **300** | 470 |
| Prepaid lease payments | | **24,501** | 24,466 |
| Rental deposits and prepayments | | **21,456** | 23,159 |
| Intangible assets | 8 | **131,905** | 134,031 |
| Goodwill | | **82,977** | 82,977 |
| Interests in associates | | **2,478** | 2,611 |
| Loans to associates | | **-** | 2,407 |
| Interests in joint ventures | | **16,336** | 19,373 |
| Loans to joint ventures | | **29,034** | 30,491 |
| Long-term loan receivables | | **839** | 827 |
| Available-for-sale investment | | **-** | - |
| Deferred tax assets | | **2,376** | 4,051 |
| | | **427,196** | 449,312 |
| **Current assets** | | | |
| Inventories | | **576,117** | 591,670 |
| Derivative financial instruments | 9 | **284** | – |
| Trade and other receivables | 10 | **359,874** | 323,233 |
| Taxation recoverable | | **929** | 6,033 |
| Bank balances and cash | | **82,971** | 128,488 |
| | | **1,020,175** | 1,049,424 |
| Assets classified as held for sale | 11 | **1,674** | 1,674 |
| | | **1,021,849** | 1,051,098 |

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

*At June 30, 2013*

| | NOTES | At June 30, 2013 US$'000 (unaudited) | At December 31, 2012 US$'000 (audited) |
|---|---|---|---|
| **Current liabilities** | | | |
| Trade and other payables | 12 | **162,937** | 193,259 |
| Taxation payable | | **6,695** | 6,867 |
| Bank overdrafts | | **8,763** | – |
| Bank borrowings | | **262,182** | 313,040 |
| | | **440,577** | 513,166 |
| **Net current assets** | | **581,272** | 537,932 |
| **Total assets less current liabilities** | | **1,008,468** | 987,244 |
| **Non-current liabilities** | | | |
| Bank borrowings | | **42,747** | 14,247 |
| Consideration payable for acquisition of business | 14(c) | **18,329** | 17,980 |
| Deferred tax liabilities | | **37,097** | 36,945 |
| | | **98,173** | 69,172 |
| **Net assets** | | **910,295** | 918,072 |
| **Capital and reserves** | | | |
| Share capital | 13 | **6,850** | 6,850 |
| Reserves | | **886,175** | 894,873 |
| Equity attributable to owners of the Company | | **893,025** | 901,723 |
| Non-controlling interests | | **17,270** | 16,349 |
| **Total equity** | | **910,295** | 918,072 |

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the six months ended June 30, 2013*

| | Equity attributable to owners of the Company | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital US$'000 | Share premium US$'000 | Special reserve US$'000 (note (i)) | Other reserve US$'000 (note (ii)) | Revaluation reserve US$'000 (note (iii)) | Share-based compensation reserve US$'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, 2012 (unaudited) | 5,465 | 688,600 | 96,269 | (214,250) | 8,108 | 4,834 | 26,310 | 92,946 | 189,446 | 897,728 | 14,698 | 912,426 |
| Exchange difference arising on translation of financial statements | - | - | - | - | - | - | - | (5,761) | - | (5,761) | (77) | (5,838) |
| (Loss) profit for the period | - | - | - | - | - | - | - | - | (37,243) | (37,243) | 1,264 | (35,979) |
| Total comprehensive (expense) income for the period | - | - | - | - | - | - | - | (5,761) | (37,243) | (43,004) | 1,187 | (41,817) |
| Recognition of equity-settled share-based payments | - | - | - | - | - | 853 | - | - | - | 853 | - | 853 |
| Recognition of consideration for acquisition of business | - | - | - | 3,412 | - | - | - | - | - | 3,412 | - | 3,412 |
| Realised on deregistration of subsidiaries | - | - | - | - | - | - | - | (105) | 105 | - | - | - |
| Deemed partial disposal of interests in subsidiaries without losing control | - | - | - | 1,614 | - | - | - | - | - | 1,614 | 1,123 | 2,737 |
| Transfer | - | - | - | - | - | - | 1,166 | - | (1,166) | - | - | - |
| At June 30, 2012 (unaudited) | 5,465 | 688,600 | 96,269 | (209,224) | 8,108 | 5,687 | 27,476 | 87,080 | 151,142 | 860,603 | 17,008 | 877,611 |
| At January 1, 2013 (audited) | 6,850 | 755,014 | 96,269 | (210,594) | 8,108 | 6,063 | 28,744 | 101,031 | 110,238 | 901,723 | 16,349 | 918,072 |
| Exchange difference arising on translation of financial statements | - | - | - | - | - | - | - | 7,892 | - | 7,892 | (98) | 7,794 |
| (Loss) profit for the period | - | - | - | - | - | - | - | - | (16,582) | (16,582) | 1,019 | (15,563) |
| Total comprehensive income (expense) for the period | - | - | - | - | - | - | - | 7,892 | (16,582) | (8,690) | 921 | (7,769) |
| Recognition of equity-settled share-based payments, net of amount forfeited relating to share options not yet vested | - | - | - | - | - | (604) | - | - | 596 | (8) | - | (8) |
| Realised on deregistration of subsidiaries | - | - | - | - | - | - | - | (171) | 171 | - | - | - |
| Transfer | - | - | - | - | - | - | 1,229 | - | (1,229) | - | - | - |
| At June 30, 2013 (unaudited) | 6,850 | 755,014 | 96,269 | (210,594) | 8,108 | 5,459 | 29,973 | 108,752 | 93,194 | 893,025 | 17,270 | 910,295 |

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

*For the six months ended June 30, 2013*

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 (a) 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 and (b) the fair values of the share-settled consideration at the dates of acquisition of subsidiaries' business in prior years that, less the amount already settled by the issue of the Company's shares in prior years, will be settled by the Company by the issue of a fixed number of its ordinary shares in a future date.

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

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

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

*For the six months ended June 30, 2013*

| | NOTE | For the six months ended June 30, 2013 US$'000 (unaudited) | 2012 US$'000 (unaudited) |
|---|---|---|---|
| **Net cash used in operating activities** | | **(14,474)** | (47,905) |
| **Net cash used in investing activities** | | | |
| Purchase of property, plant and equipment | | **(9,766)** | (9,913) |
| Repayment of advance to associates | | **2,407** | – |
| Interest received | | **1,104** | 2,123 |
| Repayment of advance to joint ventures | | **746** | 520 |
| Acquisition of business | 14 | **-** | (56,859) |
| Proceeds from disposal of properties | | **-** | 7,929 |
| Deposits received for disposal of assets classified as held for sale | | **-** | 397 |
| Other investing cash flows | | **1,008** | 491 |
| | | **(4,501)** | (55,312) |
| **Net cash (used in) from financing activities** | | | |
| Repayment of bank borrowings | | **(270,047)** | (151,981) |
| Interest paid | | **(8,026)** | (9,551) |
| Repayment to related and connected parties | | **(3,402)** | – |
| Bank borrowings raised | | **244,923** | 276,218 |
| Proceeds from deemed partial disposal of interests in subsidiaries without losing control | | **-** | 2,737 |
| | | **(36,552)** | 117,423 |
| **Net (decrease) increase in cash and cash equivalents** | | **(55,527)** | 14,206 |
| Effect of foreign exchange rate changes | | **1,247** | (778) |
| **Cash and cash equivalents at beginning of the period** | | **128,488** | 115,282 |
| | | **74,208** | 128,710 |
| **Cash and cash equivalents at end of the period, represented by** | | | |
| Bank balances and cash | | **82,971** | 175,718 |
| Bank overdrafts | | **(8,763)** | (47,008) |
| | | **74,208** | 128,710 |

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

### 1. BASIS OF PREPARATION

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

### 2. PRINCIPAL ACCOUNTING POLICIES

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

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the fifteen-month period ended December 31, 2012, as described therein.

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

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

| | |
|---|---|
| Amendments to HKAS 1 | Presentation of Items of Other Comprehensive Income |
| Amendments to HKAS 12 | Deferred Tax: Recovery of Underlying Assets |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2009 – 2011 Cycle |
| Amendments to HKFRS 1 | Government Loans |
| Amendments to HKFRS 7 | Disclosures – Offsetting Financial Assets and Financial Liabilities |
| Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 | Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance |
| HKAS 19 (Revised 2011) | Employee Benefits |
| HKAS 27 (Revised 2011) | Separate Financial Statements |
| HKAS 28 (Revised 2011) | Investments in Associates and Joint Ventures |
| HKFRS 10 | Consolidated Financial Statements |
| HKFRS 11 | Joint Arrangements |
| HKFRS 12 | Disclosure of Interests in Other Entities |
| HKFRS 13 | Fair Value Measurement |
| HK(IFRIC) – Int 20 | Stripping Costs in the Production Phase of a Surface Mine |

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

**2. PRINCIPAL ACCOUNTING POLICIES** (Continued)

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

**New and revised standards on consolidation, joint arrangements, associates and disclosures**

In the current interim period, the Group has applied for the first time HKFRS 10, HKFRS 11, HKFRS 12 and HKAS 28 (as revised in 2011) together with the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 regarding the transitional guidance. HKAS 27 (as revised in 2011) is not applicable to these condensed consolidated interim financial information as it deals only with separate financial statements. The impact of the application of these standards is set out below.

*Impact of the application of HKFRS 10*

HKFRS 10 replaces the parts of HKAS 27 "Consolidated and Separate Financial Statements" that deal with consolidated financial statements and HK(SIC) – Int 12 "Consolidation – Special Purpose Entities". HKFRS 10 changes the definition of control such that an investor has control over an investee when a) it has power over the investee; b) it is exposed, or has rights, to variable returns from its involvement with the investee and c) has the ability to use its power to affect its returns. All three of these criteria must be met for an investor to have control over an investee. Previously, control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Additional guidance has been included in HKFRS 10 to explain when an investor has control over an investee.

The Directors of the Company made an assessment as at the date of initial application of HKFRS 10 (i.e. January 1, 2013) as to whether or not the Group has control over its investees in accordance with the new definition of control and the related guidance set out in HKFRS 10. The Directors of the Company concluded that it has had control over the investees which are consolidated into the condensed consolidated interim financial information before the application of HKFRS 10. The adoption of HKFRS 10 has therefore had no material effect on the amounts reported in this condensed consolidated interim financial information.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

2. **PRINCIPAL ACCOUNTING POLICIES** (Continued)

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

**New and revised standards on consolidation, joint arrangements, associates and disclosures** (Continued)

*Impact of the application of HKFRS 11*

HKFRS 11 replaces HKAS 31 "Interests in Joint Ventures", and the guidance contained in a related interpretation, HK(SIC) – Int 13 "Jointly Controlled Entities – Non-Monetary Contributions by Venturers", has been incorporated in HKAS 28 (as revised in 2011). HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified and accounted for. Under HKFRS 11, there are only two types of joint arrangements – joint operations and joint ventures. The classification of joint arrangements under HKFRS 11 is determined based on the rights and obligations of parties to the joint arrangements by considering the structure, the legal form of the arrangements, the contractual terms agreed by the parties to the arrangement, and, when relevant, other facts and circumstances. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint venturers) have rights to the net assets of the arrangement. Previously, HKAS 31 had three types of joint arrangements – jointly controlled entities, jointly controlled operations and jointly controlled assets. The classification of joint arrangements under HKAS 31 was primarily determined based on the legal form of the arrangement (e.g. a joint arrangement that was established through a separate entity was classified as a jointly controlled entity).

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

**2. PRINCIPAL ACCOUNTING POLICIES** (Continued)

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

**New and revised standards on consolidation, joint arrangements, associates and disclosures** (Continued)

*Impact of the application of HKFRS 11* (Continued)

The initial and subsequent accounting of joint ventures and joint operations are different. Investments in joint ventures are accounted for using the equity method (proportionate consolidation is no longer allowed). Investments in joint operations are accounted for such that each joint operator recognises its assets (including its share of any assets jointly held), its liabilities (including its share of any liabilities incurred jointly), its revenue (including its share of revenue from the sale of the output by the joint operation) and its expenses (including its share of any expenses incurred jointly). Each joint operator accounts for the assets and liabilities, as well as revenues and expenses, relating to its interest in the joint operation in accordance with the applicable standards. The Directors of the Company reviewed and assessed the classification of the Group's investments in the joint arrangements in accordance with the requirements of HKFRS 11. The Directors concluded that the Group's investment in each of the joint arrangements, each of which was classified as a jointly controlled entity under HKAS 31 and was accounted for using the equity method, should be classified as a joint venture under HKFRS 11 and continue to be accounted for using the equity method. The adoption of HKFRS 11 has therefore had no material effect on the amounts reported in this condensed consolidated interim financial information.

**Amendments to HKAS 34 "Interim Financial Reporting"**

*(as part of the Annual Improvements to HKFRSs 2009 – 2011 Cycle)*

The Group has applied the amendments to HKAS 34 "Interim Financial Reporting" as part of the Annual Improvements to HKFRSs 2009 – 2011 Cycle for the first time in the current interim period. The amendments to HKAS 34 clarify that the total assets and total liabilities for a particular reportable segment would be separately disclosed in the interim financial statements only when the amounts are regularly provided to the chief operating decision maker ("CODM") and there has been a material change from the amounts disclosed in the last annual financial statements for that reportable segment.

Total assets and liabilities information are not disclosed in this condensed consolidated interim financial information since the Directors of the Company consider that there has not been any material change from the amounts disclosed in the last annual financial statements in any reportable segments.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

2. **PRINCIPAL ACCOUNTING POLICIES** (Continued)

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

**HKFRS 13 "Fair Value Measurement"**

The Group has applied HKFRS 13 for the first time in the current interim period. HKFRS 13 establishes a single source of guidance for, and disclosures about, fair value measurements, and replaces those requirements previously included in various HKFRSs. Consequential amendments have been made to HKAS 34 to require certain disclosures to be made in the condensed consolidated interim financial information.

The scope of HKFRS 13 is broad, and applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, subject to a few exceptions. HKFRS 13 contains a new definition for 'fair value' and defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under HKFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, HKFRS 13 includes extensive disclosure requirements. In accordance with the transitional provisions of HKFRS 13, the Group has applied the new fair value measurement and disclosure requirements prospectively. Disclosures of fair value information are set out in note 16. Other than the additional disclosures, the application of HKFRS 13 has not had any material impact on the amounts recognised in this condensed consolidated interim financial information.

**Amendments to HKAS 1 "Presentation of Items of Other Comprehensive Income"**

The amendments to HKAS 1 introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to HKAS 1, a "statement of comprehensive income" may be renamed as a "statement of profit or loss and other comprehensive income" and an "income statement" is renamed as a "statement of profit or loss". However, since the new terminology under amendments to HKAS 1 is not mandatory and the Directors of the Company determine to remain the titles of "statement of comprehensive income" and "income statement" unchanged.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

**2. PRINCIPAL ACCOUNTING POLICIES** (Continued)

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

**Amendments to HKAS 1 "Presentation of Items of Other Comprehensive Income"** (Continued)

In addition, the amendments to HKAS 1 require items of other comprehensive income to be grouped into two categories: (a) items that will not be reclassified subsequently to income statement; and (b) items that may be reclassified subsequently to income statement when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to HKAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

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

**3. REVENUE AND SEGMENTAL INFORMATION**

The Group's operating segments are determined based on information reported to 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 ("Manufacturing Business").

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

### 3. REVENUE AND SEGMENTAL INFORMATION (Continued)

**Segment revenue and results**

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

*For the six months ended June 30, 2013*

| | Retail Business US$'000 | Brand Licensee Business US$'000 | Manufacturing Business US$'000 | Segment total US$'000 | Eliminations US$'000 | Consolidated US$'000 |
|---|---|---|---|---|---|---|
| **REVENUE** | | | | | | |
| External sales – sportswear and footwear products | 836,041 | 13,835 | 29,357 | 879,233 | - | 879,233 |
| External sales – commissions from concessionaire sales | 7,012 | - | - | 7,012 | - | 7,012 |
| Inter-segment sales* | - | 6,518 | - | 6,518 | (6,518) | - |
| Total segment revenue | 843,053 | 20,353 | 29,357 | 892,763 | (6,518) | 886,245 |
| **RESULTS** | | | | | | |
| Segment results | 15,422 | 37 | (6,447) | 9,012 | (710) | 8,302 |
| Reconciling items: | | | | | | |
| Central administrative expenses | | | | | | (656) |
| Finance costs – net | | | | | | (6,922) |
| Share of results of associates | | | | | | (192) |
| Share of results of joint ventures | | | | | | (3,339) |
| Impairment losses on loans to joint ventures | | | | | | (2,443) |
| Fair value changes on derivative financial instruments | | | | | | 281 |
| Fair value changes on consideration payable for acquisition of business | | | | | | (361) |
| Loss before taxation | | | | | | (5,330) |

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

### 3. REVENUE AND SEGMENTAL INFORMATION (Continued)

**Segment revenue and results** (Continued)

*For the six months ended June 30, 2012*

| | Retail Business US$'000 | Brand Licensee Business US$'000 | Manufacturing Business US$'000 | Segment total US$'000 | Eliminations US$'000 | Consolidated US$'000 |
|---|---|---|---|---|---|---|
| **REVENUE** | | | | | | |
| External sales - sportswear and footwear products | 798,321 | 25,157 | 55,029 | 878,507 | - | 878,507 |
| External sales - commissions from concessionaire sales | 9,292 | - | - | 9,292 | - | 9,292 |
| Inter-segment sales* | - | 10,301 | - | 10,301 | (10,301) | - |
| Total segment revenue | 807,613 | 35,458 | 55,029 | 898,100 | (10,301) | 887,799 |
| **RESULTS** | | | | | | |
| Segment results | 8,205 | (9,322) | 3,681 | 2,564 | (2,792) | (228) |
| Reconciling items: | | | | | | |
| Central administrative expenses | | | | | | (450) |
| Finance costs - net | | | | | | (7,428) |
| Share of results of associates | | | | | | 322 |
| Share of results of joint ventures | | | | | | (4,681) |
| Gain on disposal of properties | | | | | | 4,685 |
| Impairment losses of interests in an associate and joint ventures | | | | | | (7,497) |
| Fair value changes on derivative financial instruments | | | | | | (14,655) |
| Fair value changes on consideration payable for acquisition of business | | | | | | (1,542) |
| Loss before taxation | | | | | | (31,474) |

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

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

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

### 4. INCOME TAX EXPENSE

| | For the six months ended June 30, | |
|---|---|---|
| | **2013** | 2012 |
| | **US$'000** | US$'000 |
| | **(unaudited)** | (unaudited) |
| Taxation attributable to the Company and its subsidiaries: | | |
| Current tax: | | |
| Hong Kong ("HK") Profits Tax (note i) | **43** | 314 |
| PRC Enterprise Income Tax ("EIT") (note ii) | **8,198** | 4,723 |
| Overseas income tax (note iii) | **622** | 484 |
| | **8,863** | 5,521 |
| Deferred tax charge (credit) | **1,370** | (1,016) |
| | **10,233** | 4,505 |

notes:

**(i) HK**

HK Profits Tax is calculated at 16.5% (six months ended June 30, 2012: 16.5%) of the estimated assessable profit for the period.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

### 4. INCOME TAX EXPENSE (Continued)

**(ii) PRC**

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

(a) Pursuant to the relevant laws and regulations in the PRC, certain of the Group's PRC subsidiaries are exempted from PRC income tax for two years starting from their first profit-making year, followed by a 50% reduction in the applicable tax rate for the next three years. These tax holidays and concessions were expired in 2012.

For entities which were entitled to unutilised tax holidays (including two-year exemption and three-year half rate) under the then existing preferential tax treatments, the unutilised tax holidays are allowed to be carried forward to future years until their expiry. However, if an entity did not commence its tax holiday due to its loss position, the tax holiday is deemed to commence from 2008 onwards. Certain PRC subsidiaries were loss-making up to 2008, their tax holidays are therefore deemed to commence in 2008.

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

**(iii) Overseas**

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

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

### 5. LOSS FOR THE PERIOD

| | For the six months ended June 30, 2013 US$'000 (unaudited) | 2012 US$'000 (unaudited) |
|---|---|---|
| Loss for the period has been arrived at after charging (crediting): | | |
| Total staff cost (included in selling and distribution expenses and administrative expenses) | **80,735** | 86,532 |
| Operating lease rentals and concessionaire fees in respect of shopping malls/retail outlets (included in selling and distribution expenses) | **106,765** | 113,269 |
| Depreciation of property, plant and equipment | **18,492** | 18,023 |
| Release of prepaid lease payments | **326** | 320 |
| Amortisation of intangible assets (included in selling and distribution expenses) | **4,080** | 4,162 |
| Net exchange (gain) loss (included in other income and gains/losses) | **(2,197)** | 564 |
| Subsidies, rebates and other income from suppliers (included in other income and gains/losses) | **(9,004)** | (7,687) |
| Impairment loss recognised on trade receivables (included in other income and gains/losses) | **79** | 4,035 |
| Allowance for inventories (included in other income and gains/ losses) | **4,065** | 2,595 |
| Impairment losses of interests in an associate and joint ventures (note) | **-** | 7,497 |

note: During the six months ended June 30, 2012, the impairment loss of US$7,497,000 was made in respect of the Group's interests in an associate and joint ventures based on the expected losses arising from the anticipated disposals in the foreseeable future. The recoverable amounts of the relevant entities were estimated by reference to their expected disposal proceeds from the joint venture partners of the relevant entities from their anticipated disposals less the Group's interests in those entities which the Group expected to dispose of after the end of the reporting period.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

### 6. DIVIDEND

No dividends were paid or declared during the reported period. The Directors do not propose the payment of an interim dividend (six months ended June 30, 2012: nil).

### 7. LOSS PER SHARE

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

| | For the six months ended June 30, | |
|---|---|---|
| | **2013** | 2012 |
| | **US$'000** | US$'000 |
| | **(unaudited)** | (unaudited) |
| Loss: | | |
| Loss for the period attributable to owners of the Company for the purposes of basic and diluted loss per share | **(16,582)** | (37,243) |

| | For the six months ended June 30, | |
|---|---|---|
| | **2013** | 2012 |
| Number of shares: | | |
| Weighted average number of ordinary shares for the purposes of basic and diluted loss per share | **5,378,908,615** | 4,305,568,866 |

The computation of diluted loss per share for each of the six months ended June 30, 2013 and 2012 does not assume the exercise of the Company's share options because the exercise prices of those options were higher than the average market price of the shares in the relevant periods.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

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

During the period, the Group acquired property, plant and equipment of US$10,236,000 (six months ended June 30, 2012: US$9,913,000).

During the six months ended June 30, 2012, property, plant and equipment of US$10,884,000 and intangible assets of US$23,491,000 were arising from the acquisition of business (see Note 14).

### 9. DERIVATIVE FINANCIAL INSTRUMENTS

| | **At June 30, 2013 US$'000 (unaudited)** | At December 31, 2012 US$'000 (audited) |
|---|---|---|
| Derivative financial assets comprise: | | |
| Call options for acquisition of additional interests in subsidiaries, associates and joint ventures (note i) | **-** | – |
| Foreign currency forward contracts (note ii) | **284** | – |
| | **284** | – |

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

### 9. DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

notes:

(i) In October 2007, the Group entered into call option agreements with the other shareholders (the "Relevant Partners") of certain subsidiaries, associates and joint ventures (the "Relevant Companies"), pursuant to which the Group, in return for its payment of a premium to each of the Relevant Partners (the "Option Premium"), has the right (but not the obligation) exercisable at its discretion to acquire from each of the Relevant Partners their respective equity interests (the "Relevant Equity Interests") in the Relevant Companies (the "Call Options").

The Call Options are exercisable within five years commencing from December 6, 2008, the expiry of the first six months after dealing in the shares of the Company on the Stock Exchange commenced and upon the mutual agreements between the Company and the Relevant Partners on certain conditions stipulated in the respective agreements in respect of the performance of the Relevant Companies during the pre-determined evaluation periods. Such conditions were not yet fulfilled for any of the Call Options as at June 30, 2013 and December 31, 2012.

Pursuant to the Call Options agreements, each of the Relevant Partners has agreed not to transfer or dispose of the Relevant Equity Interests during the Call Options exercisable period without the Group's prior written consent. Furthermore, the consideration for acquiring the Relevant Equity Interests is to be determined based on the actual profit of the Relevant Companies attributable to the Relevant Partners during the pre-determined evaluation periods and the price earnings ratio of the Company during a specified period and after certain discount agreed between the Company and the Relevant Partners. The consideration is to be settled by the issue of shares in the Company at the average price during the same specified period and after deducting the Option Premium paid.

The management expects that the remaining unexercised Call Options would at no time during the remaining exercisable period be exercised to acquire the Relevant Equity Interests in subsidiaries, an associate and certain joint ventures. The valuation of each of the Call Options is therefore considered to be zero as at June 30, 2013 and December 31, 2012. All of the remaining unexercised Call Options will expire in December 2013.

(ii) As at June 30, 2013, the Group has foreign currency forward contracts with an aggregate notional amount of US$28,500,000 to sell United States Dollars for Renminbi at the exchange rates ranging from RMB6.146 to RMB6.290 for every US$1. All of the contracts were entered into during the current period and maturing within one year from the end of the reporting period.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

### 10. TRADE AND OTHER RECEIVABLES

| | At June 30, 2013 US$'000 (unaudited) | At December 31, 2012 US$'000 (audited) |
|---|---|---|
| Trade receivables | **182,209** | 177,148 |
| Deposits, prepayments and other receivables | **177,665** | 146,085 |
| | **359,874** | 323,233 |

| | At June 30, 2013 US$'000 (unaudited) | At December 31, 2012 US$'000 (audited) |
|---|---|---|
| Deposits, prepayments and other receivables represent: | | |
| Prepayments paid to suppliers | **69,004** | 31,118 |
| Value-added tax recoverable | **33,593** | 31,455 |
| Rental deposits and prepaid rentals | **25,418** | 27,471 |
| Amounts due from related parties (note) | **8,167** | 8,140 |
| Consideration receivable for disposal of properties | **6,678** | 6,580 |
| Receivables of subsidies and rebates from suppliers | **5,592** | 3,943 |
| Other prepaid expenses | **3,880** | 6,476 |
| Long-term loan receivables – due within one year | **3,282** | 8,700 |
| Prepaid lease payments – current | **659** | 649 |
| Other deposits, prepayments and receivables | **21,392** | 21,553 |
| | **177,665** | 146,085 |

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

### 10. TRADE AND OTHER RECEIVABLES (Continued)

note: The amounts are due from certain joint ventures and are unsecured and expected to be recovered within one year. Except for an aggregate amount of US$4,320,000 (December 31, 2012: US$4,349,000) which was interest-bearing and carries variable interest ranged from 5.25% to 6.72% per annum, the remaining balance is interest-free. The Directors considered the related parties are of good credit qualities because none of them were past due and the counterparties have no default payment history.

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

| | **At June 30, 2013 US$'000 (unaudited)** | At December 31, 2012 US$'000 (audited) |
|---|---|---|
| 0 to 30 days | **174,960** | 164,176 |
| 31 to 90 days | **3,148** | 10,317 |
| Over 90 days | **4,101** | 2,655 |
| | **182,209** | 177,148 |

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

### 11. ASSETS CLASSIFIED AS HELD FOR SALE

| | At June 30, 2013 US$'000 (unaudited) | At December 31, 2012 US$'000 (audited) |
|---|---|---|
| Amount comprises: | | |
| Interest in a joint venture | **1,674** | 1,674 |

On April 30, 2012, the Group entered into a sale and purchase agreement with the joint venture partners of a joint venture, pursuant to which the parties agreed to, amongst other matters, the disposal of the Group's investment in the relevant joint venture.

A deposit of US$1,674,000 has been received by the Group in prior years for the transaction and the amount is included in trade and other payables in the condensed consolidated statement of financial position.

At the date of this report, the transaction has not yet been completed.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

### 12. TRADE AND OTHER PAYABLES

| | At June 30, 2013 US$'000 (unaudited) | At December 31, 2012 US$'000 (audited) |
|---|---|---|
| Trade payables | **41,466** | 53,742 |
| Bills payables | **412** | 542 |
| Other payables | **121,059** | 138,975 |
| | **162,937** | 193,259 |
| Other payables represent: | | |
| Receipt in advance from customers | **42,582** | 42,762 |
| Deposits received for assets classified as held for sale | **1,674** | 1,674 |
| Amounts due to related and connected parties (note) | **891** | 4,280 |
| Royalty payables | **662** | 1,497 |
| Accruals and other payables | **75,250** | 88,762 |
| | **121,059** | 138,975 |

note: The amounts mainly represent amounts due to certain entities controlled by Yue Yuen Industrial (Holdings) Limited ("Yue Yuen"), an intermediate holding company whose shares being listed on the Stock Exchange, and its substantial shareholder of US$135,000 (December 31, 2012: US$3,531,000). The amounts are temporary fund transfers, which are non-trade in nature. The remaining balance represents amounts due to non-controlling interest of subsidiaries.

The entire amounts are unsecured and repayable on demand. Amounts due to non-controlling interests of subsidiaries are non-interest bearing. Amounts due to those entities controlled by Yue Yuen and its substantial shareholder carry interest at 4.5% (December 31, 2012: 4.5%) per annum.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

### 12. TRADE AND OTHER PAYABLES (Continued)

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

| | At June 30, 2013 US$'000 (unaudited) | At December 31, 2012 US$'000 (audited) |
|---|---|---|
| 0 to 30 days | **39,368** | 51,748 |
| 31 to 90 days | **1,062** | 1,745 |
| Over 90 days | **1,448** | 791 |
| | **41,878** | 54,284 |

### 13. SHARE CAPITAL

| | Number of shares | Nominal value HK$'000 |
|---|---|---|
| Ordinary shares of HK$0.01 each | | |
| Authorised: | | |
| At January 1, 2012, June 30, 2012, January 1, 2013 and June 30, 2013 | 30,000,000,000 | 300,000 |
| Issued and fully paid: | | |
| At January 1, 2012 and June 30, 2012 | 4,260,025,163 | 42,600 |
| Issue of shares in September 2012 for acquisition of subsidiaries in prior year | 6,330,000 | 63 |
| Issue of shares in November 2012 under rights issue | 1,066,588,790 | 10,666 |
| At December 31, 2012 and June 30, 2013 | 5,332,943,953 | 53,329 |

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

### 13. SHARE CAPITAL (Continued)

| | At June 30, 2013 US$'000 (unaudited) | At December 31, 2012 US$'000 (audited) |
|---|---|---|
| Shown in the condensed consolidated interim financial information | **6,850** | 6,850 |

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

| | **2013** | | 2012 | |
|---|---|---|---|---|
| | **Weighted average exercise price HK$** | **Number of share options** | Weighted average exercise price HK$ | Number of share options |
| As at January 1, | **1.41** | **76,335,000** | 1.41 | 101,785,000 |
| Granted | **-** | **-** | 1.05 | 5,400,000 |
| Forfeited | **1.49** | **(13,008,000)** | 1.42 | (17,478,000) |
| As at June 30, | **1.39** | **63,327,000** | 1.39 | 89,707,000 |
| Exercisable at the end of the reporting period | **1.41** | **38,065,800** | 1.42 | 25,199,500 |

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

**13. SHARE CAPITAL** (Continued)

Share options outstanding at June 30, 2013 and December 31, 2012 have the following expiry dates and exercise prices:

| Year of expiry | Exercise price | Number of share options At June 30, 2013 | At December 31, 2012 |
|---|---|---|---|
| | HK$ | | |
| 2018 | 1.62 | **27,372,000** | 36,510,000 |
| 2019 | 1.23 | **34,080,000** | 36,825,000 |
| 2020 | 1.05 | **1,875,000** | 3,000,000 |
| | | **63,327,000** | 76,335,000 |

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

### 14. ACQUISITION OF BUSINESS

*For the six months ended June 30, 2012*

The Group acquired the Pengda Business (as defined below) during the six months ended June 30, 2012. 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 or payable, assets acquired, liabilities recognised and goodwill arising, are set out below.

| | US$'000 |
|---|---|
| **The consideration for the acquisition comprises the following:** | |
| Cash consideration | 98,201 |
| Consideration shares with trading restrictions (note (b)) | 2,940 |
| Fair value of guaranteed compensation (note (c)) | 15,862 |
| Total consideration | 117,003 |
| **Fair value of assets acquired and liabilities recognised at the date of acquisition are as follow:** | |
| Property, plant and equipment | 10,884 |
| Intangible assets | 23,491 |
| Inventories | 55,516 |
| Deferred tax liabilities | (5,873) |
| | 84,018 |
| **Goodwill arising on acquisition** | 32,985 |
| **Cash consideration paid:** | |
| In prior years | 3,127 |
| During the six months ended June 30, 2012 | 56,859 |
| During the six months ended December 31, 2012 | 38,215 |
| Net cash outflow | 98,201 |
| **Acquisition-related costs** | 217 |

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

14. **ACQUISITION OF BUSINESS** (Continued)

notes:

(a) On February 1, 2012, the Group completed the acquisition of a chain of retail stores in the PRC, including the related tangible and intangible assets, owned by Shanghai Pengda Sports Goods Company Limited and its related parties ("Pengda") (the "Pengda Business"), for the purpose of strengthening its market position and geographical coverage in the PRC sportswear retail market.

Pursuant to the acquisition agreement entered into between Pengda and the Group for the acquisition of the Pengda Business, the parties have subsequently entered into a supplementary agreement in 2012 under which the original consideration for the transaction, including cash of US$103,797,000 and 46,000,000 shares of HK$0.01 each in the Company, has been reduced to cash of US$98,201,000 and 39,634,662 shares of HK$0.01 each in the Company. The fair value of the aggregate consideration for the transaction has been reduced by an amount of US$8,616,000, with a corresponding reduction of goodwill arising from this transaction.

(b) This represents 39,634,662 shares of HK$0.01 each in the Company which are issuable for the acquisition (the "Pengda Consideration Shares"). These shares, when issued, are to be placed in an escrow account and cannot be withdrawn within a period of 4 years without the Company's consent (the "Restricted Period"). The fair value of these consideration shares was determined by American Appraisal China Limited ("American Appraisal") by applying a marketability discount of 40% to the closing share price of the Company as at February 1, 2012.

(c) Pursuant to the relevant agreements, the Group has to compensate Pengda for the shortfall, if any, between the market value of each Pengda Consideration Share and HK$4 at the end of the Restricted Period. The market value applied being the average closing price of the Company's shares in the 20 consecutive trading days immediately following the end of the Restricted Period. The fair value of such guaranteed compensation has been determined by American Appraisal using the Binominal Option Pricing Model with reference to the closing share price of the Company as at February 1, 2012.

The change in fair value of the guaranteed compensation amounting to US$361,000 (six months ended June 30, 2012: US$1,542,000) is recognised in profit or loss.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

### 14. ACQUISITION OF BUSINESS (Continued)

notes: (Continued)

(d) Pro-forma revenue and loss

Included in the loss for the six months ended June 30, 2012 was loss of US$2,705,000 attributable to the additional businesses generated by Pengda Business. Revenue for the six months ended June 30, 2012 included US$83,989,000 generated from Pengda Business. Had the acquisition been completed on January 1, 2012, total group revenue for the six months ended June 30, 2012 would have been US$898,286,000, and loss for the same period would have been US$36,237,000. 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, 2012, nor is it intended to be a projection of future results.

### 15. CONTINGENCIES AND COMMITMENTS

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

**(i) Contingencies**

| | **At June 30, 2013 US$'000 (unaudited)** | At December 31, 2012 US$'000 (audited) |
|---|---|---|
| Guarantee given to banks in respect of banking facilities granted to joint ventures | | |
| – amount guaranteed | **4,479** | 7,623 |
| – amount utilised | **3,868** | 6,547 |

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

**15. CONTINGENCIES AND COMMITMENTS** (Continued)

**(ii) Commitments**

| | **At June 30, 2013 US$'000 (unaudited)** | At December 31, 2012 US$'000 (audited) |
|---|---|---|
| Capital expenditure contracted for but not provided in the condensed consolidated interim financial information in respect of acquisition of the remaining interests in a joint venture | **11,421** | 11,254 |

**16. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS**

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

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

### 16. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (Continued)

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

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

| | Fair value as at | | |
|---|---|---|---|
| | **June 30, 2013 (unaudited)** | December 31, 2012 (audited) | **Fair value hierarchy** |
| **Financial asset** | | | |
| Derivative financial instruments (note (a)) | **284** | – | Level 2 |
| **Financial liability** | | | |
| Consideration payable for acquisition of business (note (b)) | **18,329** | 17,980 | Level 3 |

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

**16. 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) Derivative financial instruments represent foreign currency forward contracts that sell United States Dollars for Renminbi. The valuation technique adopted is the discounted cash flow method. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contracted forward rates, discounted at a rate that reflects the credit risk of various counterparties.

(b) Consideration payable for acquisition of business represents the amount that the Group may have to compensate Pengda for the Pengda Consideration Shares which are issuable for the acquisition of the Pengda Business. 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 June 30, 2013 is determined by Savills Valuation and Professional Services Limited, an independent valuer, using the Binomial Option Pricing Model.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

**16. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS** (Continued)

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

notes: (Continued)

(b) (Continued)

The key inputs into the model are set out below:

| | **At June 30, 2013** | At June 30, 2012 | At February 1, 2012 |
|---|---|---|---|
| Share price at date of valuation | **HK$0.325** | HK$0.630 | HK$0.960 |
| Exercise price per share | **HK$4.000** | HK$4.000 | HK$4.000 |
| Risk free rate | **0.650%** | 0.300% | 0.395% |
| Expected volatility | **46%** | 60% | 59% |
| Expected life of the guaranteed compensation | **3.39 years** | 4 years | 4 years |
| Expected dividend yield | **Nil** | Nil | Nil |

**(ii) Reconciliation of Level 3 Measurements**

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

| | **Consideration payable for acquisition of business** US$'000 |
|---|---|
| At January 1, 2013 (audited) | (17,980) |
| Total losses recognised in profit or loss | (361) |
| Exchange realignment | 12 |
| At June 30, 2013 (unaudited) | (18,329) |

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

**16. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS** (Continued)

**(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 period.

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

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

## BUSINESS REVIEW

For each of our businesses, the retail business distributes a wide range of sportswear products, including various sports footwear, apparel and accessories, for certain leading international and domestic sportswear brands to end customers through our directly operated retail outlets, and also to retail sub-distributors on a wholesale basis, which in turn sell the products through their respective retail outlets under our supervision. As at June 30, 2013, the Group had 3,554 directly operated retail outlets and 2,217 retail sub-distributors. Directly retail outlets and retail sub-distributors operated by our regional joint ventures' amounted to 750 and 645 respectively.

The Group is constantly on the lookout for business opportunities and recently struck a deal to be the exclusive distributor of O'Neill's products in HK, Macau and the PRC.

For our brand licensee business, the Group remains the exclusive brand licensee of international brands such as Converse, Reebok and Hush Puppies in specific regions in Greater China. The brand licensee agreements entered into by the Group typically grant us exclusive rights to design, develop, manufacture, market and distribute, and the flexibility to set retail prices for the products of the licensed brands in specified locations within the Greater China Region for a specified period of time. The brand licensee arrangement of Hush Puppies in Taiwan operates until December 31, 2015. In the case of Converse, the brand licensee agreement in Taiwan operates till December 31, 2013.

In our manufacturing business, the Group manufactured OEM/ODM products for various brands, mainly included Li Ning and 361°.

## FINANCIAL REVIEW

For the first six months of the financial year, the Group recorded revenue of US$886.2 million, representing a decrease of 0.2% as compared with the same period last year. Revenue experienced no growth due to the adverse circumstances engulfing the manufacturing business, which itself experienced revenue decline of 46.7%. The loss attributable to owners of the Company was US$16.6 million in the current period and the loss was US$37.2 million for the same period last year.

## REVENUE

Our revenue decreased by 0.2% to US$886.2 million for the six months ended June 30, 2013 (for the six months ended June 30, 2012: US$887.8 million). This very slight decrease was primarily due to the weak sales of the manufacturing business and there was a contract expiration in brand licensee business last year.

### Retail Business

As a result of organic growth, sales derived from retail business increased by 4.4% to US$843.1 million (for the six months ended June 30, 2012: US$807.6 million).

### Brand Licensee Business

Revenue from our brand licensee business decreased by 45% to US$13.8 million (for the six months ended June 30, 2012: US$25.2 million). As disclosed in our 2012 annual report, 1) we terminated the brand licensee agreements with Wolverine and Hush Puppies in Greater China and the PRC on April 30, 2012 respectively; and 2) the brand licensee agreement with Converse in HK expired on December 31, 2012.

### Manufacturing Business

Revenue from our manufacturing business decreased by 46.7% to US$29.4 million (for the six months ended June 30, 2012: US$55.0 million), which was attributable to the decrease of orders from our major customers due to the impact of their terminal inventories. The Group is in the process of restructuring the business.

## GROSS PROFIT AND GROSS PROFIT MARGIN

The Group's gross profit amounted to US$249.4 million for the current period. The gross profit margin was 28.1%, representing a decrease of 2 percentage points on a year-on-year basis.

## SELLING AND DISTRIBUTION EXPENSES AND ADMINISTRATIVE EXPENSES

Selling and distribution expenses and administrative expenses of the Group for the six months ended June 30, 2013 amounted to US$253.1 million in aggregate, representing 28.6% of revenue and a decrease of 2.2 percentage points as compared with the same period last year. The decrease in such expenses was partly due to the absence of mergers and acquisitions transactions and partly due to the success of management in its efforts to control costs.

## OPERATING PROFIT

The Group's operating profit for the period amounted to US$7.6 million and the operating profit margin was 0.9%, representing an increase of 1 percentage point as compared with the same period last year.

## SHARE OF RESULTS OF ASSOCIATES AND JOINT VENTURES

Since joint ventures were mostly licensees of domestic brands, with the continued weakness experienced by the sportswear products market in the PRC, their efforts were primarily focus in the areas of inventory reduction and strategic price markdown: as a consequence most of them saw declining profits and in some cases, losses. Our share of results of associates and joint ventures incurred losses of US$3.5 million in the current period, as compared with losses of US$4.4 million in the same period last year.

## IMPAIRMENT LOSSES ON LOANS TO JOINT VENTURES

In view of the weakening financial performance of few joint ventures, an impairment of US$2.4 million on loans to joint ventures was recognised in profit and loss.

## LOSS FOR THE PERIOD

As a result of the above factors, the Group's loss for the period was US$15.6 million.

## WORKING CAPITAL EFFICIENCY

The average inventory turnover period for the period was 167 days (2012: 148 days). The longer inventory turnover period was partly due to the necessary stocking for newly opened shops and partly due to lower-than-expected sales volume of the sportswear retail business for the period. However, the Group has implemented various sales procedures to reduce its inventory level and improve its cash flow. The average trade receivables turnover period was 37 days (2012: 36 days), which remained consistent with the credit terms of 30 to 60 days that the Group granted to its department store counters and retail distributors. The average trade and bill payables turnover period was 14 days (2012: 30 days).

## LIQUIDITY AND FINANCIAL RESOURCES

As at June 30, 2013, the Group's cash and cash equivalents were US$74.2 million (December 31, 2012: US$128.5 million) and the working capital (current assets minus current liabilities) was US$581.3 million (December 31, 2012: US$537.9 million). Our total bank borrowings decreased by 4.2% to US$313.7 million from US$327.3 million as at December 31, 2012, of which US$271 million was repayable within one year and US$42.7 million was repayable after one year but not exceeding two years. Bank borrowings were denominated mainly in Renminbi, and cash and cash equivalents were mainly held in Renminbi as well. The Group's current ratio was 232% (December 31, 2012: 205%). Gearing ratio (total borrowings to total equity) was 34% (December 31, 2012: 36%).

Due to the increase in trade and other receivables and the decrease in trade and other payables for the period, net cash used in operating activities was US$14.5 million. The Group believes our liquidity requirement will be satisfied with a combination of cash generated from operating activities (for example, the on-going operations and the active reduction of inventories etc.) and bank borrowings in the future. Net cash used in investing activities was US$4.5 million, of which capital expenditure used to purchase of property, plants and equipment was US$9.8 million. Net cash used in financing activities was US$36.6 million. In the current period, the Group had raised and repaid bank borrowings of US$244.9 million and US$270.0 million respectively.

## CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

As at June 30, 2013, the Group had capital commitments of US$11.4 million in respect of an acquisition of remaining interests in a joint venture. In addition, the Group had contingent liabilities of US$3.9 million in relation to guarantees given to banks in respect of banking facilities granted to joint ventures.

## FOREIGN EXCHANGE

The Group conducted its business primarily in the PRC with substantially all of its transactions denominated and settled in Renminbi. An appreciation or depreciation between US dollars and Renminbi may result in exchange difference arising on translation and is recognised as other comprehensive income or expense in the consolidated statement of comprehensive income as US dollar is used as our reporting currency. As at June 30, 2013, the Group had no significant hedge for the foreign exchange.

## BUSINESS MODEL

The operating environment for the Group will be challenging during the course of 2013. Various headwinds continue to affect the sportswear industry in both the apparel and footwear categories. First, the global economy is still in a fragile state, with North America showing signs of pickup but with Europe on the other hand still in the midst of a recession. This weakness in the global economy means the PRC will experience soft demand for its goods and services. The change in leadership in the PRC has led to a change in expectations and policies, and resulted in a temporary slowdown in consumption. The willingness to consume is expected to improve in the second half of the year but could be diminished if new uncertainties arise. The sportswear industry has many participants, some of whom are still operating with much excess capacity and inventory. Before the excess capacity and inventory get solved, the industry will still experience sporadic periods of discounting that will adversely affects margins and profitability of market participants.

# MANAGEMENT DISCUSSION AND ANALYSIS

The Group continues to follow its strategy to become 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 brands 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 smaller retail chains that sell athletic apparel and footwear to consumers. Previously, the Group pursued a high growth strategy by acquiring other retail chains and opening new retail outlets whenever possible. At this juncture, the Group will focus on improving the efficiency of the existing sales network using a combination of techniques. We are working 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 of inventories. For the operation of the stores, various restructuring efforts have been 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 select 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 market trends and enrich its business portfolio so as to develop another avenue for sales growth. With regards to the brand licensee business of Reebok, the short-term objectives of the Group are to increase brand strength, consolidate product lines and design suitable products that will 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 aware physical activity is an important factor for maintaining good health, rising incomes will likely encourage the consumption of sportswear and in general there are signs of greater sports participation by consumers. We believe that with the upcoming World Cup, the Olympics and the European Cup, a new wave of consumption of sportswear in the PRC will be triggered. We hope that these sports events will lead to a new cycle of sales growth for the sportswear industry. The key international athletic brands and the Group are working hand in glove to effectively manage and create demand in light of the entrance of the fast retailing operators. Both parties appreciate that appropriate product differentiation and segmentation are needed to prevent consumers confusing fast retailing products with performance athletic or casual products.

We believe that 2013 will be a year of consolidation for the Group and that a new era of growth and profitability will begin in financial year 2014 for the Group.

## HUMAN RESOURCES

As at June 30, 2013, the Group had a total of 23,980 employees. The Group reviewed the performance of its employees regularly, which serves as a consideration basis in the annual salary review and promotion appraisals. In order to remain competitive in the labor market, we also made reference to remuneration packages offered by other industry players. In addition, we also provided other fringe benefits, such as social insurance, mandatory provident funds, medical coverage and training programs to employees based on their respective personal career development.

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

As at June 30, 2013, the interests or short positions of the Directors and chief executives of the Company in the shares, underlying shares and debenture of the Company and its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in the Listing Rule, were as follows:

### Long Position in shares

*(a) The Company*

Ordinary shares of HK$0.01 each of the Company

| | | Number of ordinary shares | | | | | Percentage of the issued share capital |
|---|---|---|---|---|---|---|---|
| Name of Director | Capacity | Personal Interest | Family Interest | Corporate Interest | Other Interest | Total | of the Company |
| Tsai David, Nai Fung | Beneficial owner | 6,041,250 | - | - | - | 6,041,250 | 0.11% |
| Tsai Patty, Pei Chun | Beneficial owner | 5,575,000 | - | - | - | 5,575,000 | 0.10% |

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

Ordinary shares of HK$0.25 each of Yue Yuen

| Name of Director | Capacity | Number of ordinary shares: Personal Interest | Family Interest | Corporate Interest | Other Interest | Total | Percentage of the issued share capital of Yue Yuen |
|---|---|---|---|---|---|---|---|
| Tsai David, Nai Fung | Beneficial of a trust | - | - | - | 101,126,262 | 101,126,262 | 6.13% |
| Tsai Patty, Pei Chun | Beneficial of a trust | - | - | - | 101,126,262 | 101,126,262 | 6.13% |

Save as disclosed above, none of the Directors or chief executive of the Company had, as at June 30, 2013 any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at June 30, 2013, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that other than the interest disclosed above in respect of certain Directors and chief executives of the Company, the following shareholders had notified the Company of relevant interests in the issued share capital of the Company:

| Name of Shareholder | Notes | Capacity/ Nature of interest | Number of ordinary shares held | Approximate percentage of interest in the issued share capital of the Company |
|---|---|---|---|---|
| Major Focus Management Limited ("Major Focus") | (a) | Beneficial owner | 3,295,923,560 | 61.80% |
| Yue Yuen | (a), (b) | Interest of a controlled corporation/ Beneficial owner | 3,295,923,560 | 61.80% |
| Wealthplus Holdings Limited ("Wealthplus") | (b) | Interest of a controlled corporation | 3,295,923,560 | 61.80% |
| Pou Chen Corporation ("PCC") | (b) | Interest of a controlled corporation | 3,295,923,560 | 61.80% |

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. Mr. Li I-nan, who was appointed as a director of the Company on March 26, 2013, is also a director of Major Focus and 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 Yue Yuen (resigned on June 28, 2013), Wealthplus and PCC.

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

Ms. Kuo, Li-Lien was a director of the Company (retired on May 31, 2013) and Yue Yuen (resigned on May 31, 2013).

Save as disclosed above, as at June 30, 2013, 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.

## SHARE OPTION SCHEME

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

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

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

During the six months ended June 30, 2013, the Group's reversal of total expense amounts to US$7,789 (net of amount forfeited relating to share options not yet vested) as equity-settled share-based payment in relation to the share options granted under the Share Option Scheme.

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

| Date of grant | Exercise price HK$ | Exercisable period | Number of options: Balance at January 1, 2013 | Granted during the period | Exercised during the period | Lapsed/cancelled during the period | Balance at June 30, 2013 |
|---|---|---|---|---|---|---|---|
| **Employees/Consultants** | | | | | | | |
| 21.01.2010 | 1.62 | 21.01.2011-20.01.2018 | 4,501,500 | - | - | (833,550) | 3,667,950 |
| 21.01.2010 | 1.62 | 21.01.2012-20.01.2018 | 4,501,500 | - | - | (833,550) | 3,667,950 |
| 21.01.2010 | 1.62 | 21.01.2013-20.01.2018 | 9,003,000 | - | - | (1,667,100) | 7,335,900 |
| 21.01.2010 | 1.62 | 21.01.2014-20.01.2018 | 12,004,000 | - | - | (2,222,800) | 9,781,200 |
| 20.01.2011 | 1.23 | 20.01.2012-19.01.2019 | 7,177,500 | - | - | - | 7,177,500 |
| 20.01.2011 | 1.23 | 20.01.2013-19.01.2019 | 7,177,500 | - | - | - | 7,177,500 |
| 20.01.2011 | 1.23 | 20.01.2014-19.01.2019 | 7,177,500 | - | - | - | 7,177,500 |
| 20.01.2011 | 1.23 | 20.01.2015-19.01.2019 | 7,177,500 | - | - | - | 7,177,500 |
| 07.03.2012 | 1.05 | 07.03.2013-06.03.2020 | 375,000 | - | - | - | 375,000 |
| 07.03.2012 | 1.05 | 07.03.2014-06.03.2020 | 375,000 | - | - | - | 375,000 |
| 07.03.2012 | 1.05 | 07.03.2015-06.03.2020 | 375,000 | - | - | - | 375,000 |
| 07.03.2012 | 1.05 | 07.03.2016-06.03.2020 | 375,000 | - | - | - | 375,000 |
| Sub-total | | | 60,220,000 | - | - | (5,557,000) | 54,663,000 |
| **Former Employees** | | | | | | | |
| 21.01.2010 | 1.62 | 21.01.2011-20.01.2018 | 1,657,500 | - | - | (375,000) | 1,282,500 |
| 21.01.2010 | 1.62 | 21.01.2012-20.01.2018 | 1,657,500 | - | - | (375,000) | 1,282,500 |
| 21.01.2010 | 1.62 | 21.01.2013-20.01.2018 | 1,365,000 | - | - | (1,011,000) | 354,000 |
| 21.01.2010 | 1.62 | 21.01.2014-20.01.2018 | 1,820,000 | - | - | (1,820,000) | - |
| 20.01.2011 | 1.23 | 20.01.2012-19.01.2019 | 4,560,000 | - | - | - | 4,560,000 |
| 20.01.2011 | 1.23 | 20.01.2013-19.01.2019 | 1,185,000 | - | - | (375,000) | 810,000 |
| 20.01.2011 | 1.23 | 20.01.2014-19.01.2019 | 1,185,000 | - | - | (1,185,000) | - |
| 20.01.2011 | 1.23 | 20.01.2015-19.01.2019 | 1,185,000 | - | - | (1,185,000) | - |
| 07.03.2012 | 1.05 | 07.03.2013-06.03.2020 | 375,000 | - | - | - | 375,000 |
| 07.03.2012 | 1.05 | 07.03.2014-06.03.2020 | 375,000 | - | - | (375,000) | - |
| 07.03.2012 | 1.05 | 07.03.2015-06.03.2020 | 375,000 | - | - | (375,000) | - |
| 07.03.2012 | 1.05 | 07.03.2016-06.03.2020 | 375,000 | - | - | (375,000) | - |
| Sub-total | | | 16,115,000 | - | - | (7,451,000) | 8,664,000 |
| Grand total | | | 76,335,000 | - | - | (13,008,000) | 63,327,000 |

During the six months ended June 30, 2013, no share options were granted or exercised under the Share Option Scheme.

## ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

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

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended June 30, 2013, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company.

## UPDATE ON DIRECTORS' INFORMATION

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes in information of the Directors after March 26, 2013, the date of the Company's 2012 annual report are set out below:

(1) On March 26, 2013, the Company has established the Disclosure Committee consisted of two Executive Directors of the Company, namely Mr. Kwan, Heh-Der ("Mr. Kwan") and Mr. Wu, Pan-Tsu.

(2) After the conclusion of the annual general meeting of the Company held on May 31, 2013, Mr. Hu Sheng-Yih retired as an Independent Non-executive Director of the Company and Ms. Kuo, Li-Lien ("Ms. Kuo") retired as a Non-executive Director of the Company.

(3) On May 31, 2013, Mr. Kwan in place of Ms. Kuo was appointed as a director of the following subsidiaries and a secretary of various Hong Kong subsidiaries of the Company:

### Companies incorporated in Hong Kong

1. Brightup Group Limited
2. Favour Mark Holdings Limited
3. Gorgeous Time Limited
4. Hillside Investments Limited
5. Nice Palace Investments Limited
6. Rainbow Faith Investments Limited
7. Yue Ming International Limited

### Companies incorporated in the British Virgin Islands

1. A-Grade Holdings Limited
2. Dedicated Group Limited
3. Diodite Limited
4. Nice Well Investments Limited
5. Richwin Management Limited
6. Selangor Gold Limited
7. Technico Business Group Limited
8. Treasure Chain International Limited
9. Wealthy Chain Investments Limited
10. Wellmax Business Group Limited
11. Winning Team Holdings Limited
12. YY Sports Holdings Limited

(4) On May 31, 2013, Ms. Kuo resigned as a director of Yue Yuen.

(5) On June 13, 2013, Mr. Hsieh, Wuei-Jung, currently served as a member of the compensation committee of the board of Xintec Inc. ("Xintec", shares of which are traded on the Gre Tai Securities Market in Taiwan), was appointed as an independent non-executive director and chairman of audit committee of Xintec.

(6) On June 28, 2013, Mr. Tsai David, Nai Fung resigned as an executive director and managing director of Yue Yuen.

(7) On June 28, 2013, Ms. Tsai Patty, Pei Chun was appointed as managing director of Yue Yuen.

(8) On June 28, 2013, Mr. Kwan was appointed as a director of Business Network Holdings Limited, Dragonlight Group Limited and Profit Concept Group Limited, subsidiaries of the Company incorporated in the British Virgin Islands, and a director and secretary of Sky Grace Investments Limited, a joint venture of the Company incorporated in Hong Kong.

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

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

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

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

| | Aggregate level of the facility granted that maybe affected by such breach US$'000 | Borrowing under such facility as at June 30, 2013 US$'000 | Life of the facility | Specific performance obligation | Consequences on breach of specific performance obligation |
|---|---|---|---|---|---|
| Loan I | 50,000 | 30,000 | 2 years after the date from the first drawdown | Yue Yuen (1) owns beneficially, directly or indirectly more than 50% of the Company; or (2) has the ability to direct or cause the direction of the management of the Company | The bank may opt to demand prepayment if change of control |
| Loan II | 10,000 | Nil | 1 year | The Company remains a subsidiary of Yue Yuen | The entire outstanding be immediate due and payable |
| Total | | 30,000 | | | |

## REVIEW OF ACCOUNTS

Disclosure of financial information in this report complies with Appendix 16 of the Listing Rules. The audit committee of the Company has reviewed the accounting principles and practices adopted by the Group and in the course have discussed with the management, the internal controls and financial reporting matters related to the preparation of the unaudited condensed consolidated interim financial information for the six months ended June 30, 2013.

The external auditor has reviewed the interim financial information for the six months ended June 30, 2013 in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" ("HKSRE 2410") issued by the HKICPA. Without qualifying its review conclusion, the external auditor draws attention to the fact that the comparative condensed consolidated income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the six-month period ended June 30, 2012 and the relevant explanatory notes disclosed in the condensed consolidated interim financial information have not been reviewed in accordance with HKSRE 2410.

## CORPORATE GOVERNANCE

During the six months ended June 30, 2013, the Company has applied the principles of and has complied with all code provisions set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules.

On August 13, 2013, the Company has adopted a board diversity policy to set out the criteria on the composition of the Board.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as the Company's code of conduct for dealings in securities of the Company by Directors. All Directors have confirmed, following specific enquiry by the Company that they have complied with the required standard set out in the Model Code throughout the six months ended June 30, 2013.

# Other Information

## ACKNOWLEDGEMENT

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

## DIRECTORS

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

By Order of the Board
**Tsai David, Nai Fung**
*Chairman*

Hong Kong, August 13, 2013

Website: www.pousheng.com