



POU SHENG INTERNATIONAL (HOLDINGS) LIMITED

寶勝國際(控股)有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code : 3813)



Interim Report

2015





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THE GROUP'S FINANCIAL HIGHLIGHTS

| | For the six months ended June 30, | | Percentage increase |
|--|--------------------------------------|---------|------------------------|
| | 2015 | 2014 | |
| Revenue (<i>US\$'000</i>) | 1,187,201 | 966,593 | 22.8% |
| Operating profit (<i>US\$'000</i>) | 55,149 | 15,846 | 248.0% |
| Profit (loss) attributable to owners of the Company (<i>US\$'000</i>) | 26,325 | (1,842) | N/A |
| Basic earnings (loss) per share (<i>US cent</i>) | 0.49 | (0.03) | N/A |

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RESULTS

The board (the "Board") of directors (the "Directors") of Pou Sheng International (Holdings) Limited (the "Company") are pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended June 30, 2015 with comparative figures for the corresponding period in 2014 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended June 30, 2015

| | NOTES | For the six months ended June 30, | |
|---|-------|-----------------------------------|---------------------------------|
| | | 2015 US\$'000 (unaudited) | 2014 US\$'000 (unaudited) |
| Revenue | 3 | 1,187,201 | 966,593 |
| Cost of sales | | (805,376) | (678,712) |
| Gross profit | | 381,825 | 287,881 |
| Other operating income and gains (losses) | | 7,568 | 5,971 |
| Selling and distribution expenses | | (292,050) | (235,752) |
| Administrative expenses | | (42,194) | (42,254) |
| Operating profit | | 55,149 | 15,846 |
| Finance costs | | (4,328) | (5,330) |
| Finance income | | 1,312 | 1,395 |
| Finance costs - net | | (3,016) | (3,935) |
| Share of results of an associate | | 13 | (516) |
| Share of results of joint ventures | | (295) | (1,265) |
| Other gains (losses) | | (8,497) | (2,442) |
| Profit before taxation | | 43,354 | 7,688 |
| Income tax expense | 4 | (14,647) | (10,281) |
| Profit (loss) for the period | 5 | 28,707 | (2,593) |
| Attributable to: | | | |
| Owners of the Company | | 26,325 | (1,842) |
| Non-controlling interests | | 2,382 | (751) |
| | | 28,707 | (2,593) |
| Earnings (loss) per share | 7 | | |
| - Basic | | US0.49 cent | US(0.03) cent |
| - Diluted | | US0.49 cent | US(0.03) cent |

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CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended June 30, 2015

| | For the six months ended June 30, | |
|--|--------------------------------------|---------------------------------|
| | 2015 US\$'000 (unaudited) | 2014 US\$'000 (unaudited) |
| Profit (loss) for the period | 28,707 | (2,593) |
| Other comprehensive income (expense) <i>An item that will not be reclassified subsequently to profit or loss</i> | | |
| Exchange difference arising on translation | 1,481 | (20,273) |
| Total comprehensive income (expense) for the period | 30,188 | (22,866) |
| Attributable to: | | |
| Owners of the Company | 27,765 | (21,790) |
| Non-controlling interests | 2,423 | (1,076) |
| | 30,188 | (22,866) |

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CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At June 30, 2015

| | NOTES | At June 30, 2015 US\$'000 (unaudited) | At December 31, 2014 US\$'000 (audited) |
|--|-------|---|---|
| Non-current assets | | | |
| Property, plant and equipment | 8 | 94,329 | 94,414 |
| Deposit paid for acquisition of property, plant and equipment | | 3,090 | 1,875 |
| Prepaid lease payments | | 22,934 | 23,226 |
| Rental deposits and prepayments | | 17,011 | 17,480 |
| Intangible assets | | 109,636 | 113,405 |
| Goodwill | | 82,977 | 82,977 |
| Interest in an associate | | 2,042 | 2,022 |
| Interests in joint ventures | | 9,012 | 9,292 |
| Loans to joint ventures | | 10,030 | 17,246 |
| Long-term loan receivable | | 8,055 | 8,044 |
| Available-for-sale investment | | - | - |
| Deferred tax assets | | 68 | 1,003 |
| | | 359,184 | 370,984 |
| Current assets | | | |
| Inventories | | 526,274 | 597,179 |
| Trade and other receivables | 9 | 372,810 | 316,228 |
| Taxation recoverable | | 619 | 328 |
| Bank balances and cash | | 117,722 | 43,743 |
| | | 1,017,425 | 957,478 |

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CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

At June 30, 2015

| | NOTE | At June 30, 2015 US\$'000 (unaudited) | At December 31, 2014 US\$'000 (audited) |
|--|------|---|---|
| Current liabilities | | | |
| Trade and other payables | 10 | 275,801 | 206,856 |
| Taxation payable | | 8,548 | 1,967 |
| Bank borrowings | | 142,021 | 196,545 |
| | | 426,370 | 405,368 |
| Net current assets | | 591,055 | 552,110 |
| Total assets less current liabilities | | 950,239 | 923,094 |
| Non-current liabilities | | | |
| Consideration payable for acquisition of business | | 15,808 | 16,436 |
| Deferred tax liabilities | | 30,459 | 31,388 |
| | | 46,267 | 47,824 |
| Net assets | | 903,972 | 875,270 |
| Capital and reserves | | | |
| Share capital | | 6,909 | 6,909 |
| Reserves | | 880,076 | 853,797 |
| Equity attributable to owners of the Company | | 886,985 | 860,706 |
| Non-controlling interests | | 16,987 | 14,564 |
| Total equity | | 903,972 | 875,270 |

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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended June 30, 2015

| | Equity attributable to owners of the Company | | | | | | | | | | | | | Non-controlling interests US\$'000 | Total US\$'000 |
|---|--|---------------------------|---|--|---|--|---------------------------------|--|--|---------------------------------|---------------------------------|-------------------|---------|---------------------------------------|-------------------|
| | Share capital US\$'000 | Share premium US\$'000 | Special reserve US\$'000 (note (i)) | Other reserve US\$'000 (note (ii)) | Revaluation reserve US\$'000 (note (iii)) | Shares held for share award scheme US\$'000 | Share 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 | | | |
| At January 1, 2014 (audited) | 6,909 | 758,792 | 96,269 | (215,523) | 8,108 | - | - | 5,218 | 32,423 | 118,251 | 70,467 | 880,914 | 16,018 | 896,932 | |
| Exchange difference arising on translation of financial statements | - | - | - | - | - | - | - | - | - | (19,948) | - | (19,948) | (325) | (20,273) | |
| Loss for the period | - | - | - | - | - | - | - | - | - | - | (1,842) | (1,842) | (751) | (2,593) | |
| Total comprehensive expense for the period | - | - | - | - | - | - | - | - | - | (19,948) | (1,842) | (21,790) | (1,076) | (22,866) | |
| Purchase of shares under share award scheme | - | - | - | - | - | (1,168) | - | - | - | - | - | (1,168) | - | (1,168) | |
| Recognition of equity-settled share-based payments, net of amount forfeited relating to share options not yet vested | - | - | - | - | - | - | - | (28) | - | - | - | (28) | - | (28) | |
| Realised on disposal of subsidiaries | - | - | - | - | - | - | - | - | - | (308) | 308 | - | - | - | |
| Dividend paid to non-controlling interests | - | - | - | - | - | - | - | - | - | - | - | - | (398) | (398) | |
| Transfer | - | - | - | - | - | - | - | - | 3,335 | - | (3,335) | - | - | - | |
| At June 30, 2014 (unaudited) | 6,909 | 758,792 | 96,269 | (215,523) | 8,108 | (1,168) | - | 5,190 | 35,758 | 97,995 | 65,598 | 857,928 | 14,544 | 872,472 | |
| At January 1, 2015 (audited) | 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 | |
| Exchange difference arising on translation of financial statements | - | - | - | - | - | - | - | - | - | 1,440 | - | 1,440 | 41 | 1,481 | |
| Profit for the period | - | - | - | - | - | - | - | - | - | - | 26,325 | 26,325 | 2,382 | 28,707 | |
| Total comprehensive income for the period | - | - | - | - | - | - | - | - | - | 1,440 | 26,325 | 27,765 | 2,423 | 30,188 | |
| Purchase of shares under share award scheme | - | - | - | - | - | (1,633) | - | - | - | - | - | (1,633) | - | (1,633) | |
| Recognition of equity-settled share-based payments, net of amount forfeited relating to share options and share awards not yet vested | - | - | - | - | - | - | 134 | 13 | - | - | - | 147 | - | 147 | |
| Realised on deregistration of subsidiaries | - | - | - | - | - | - | - | - | - | 20 | (20) | - | - | - | |
| Transfer | - | - | - | - | - | - | - | - | 5,147 | - | (5,147) | - | - | - | |
| At June 30, 2015 (unaudited) | 6,909 | 758,792 | 96,269 | (211,527) | 8,108 | (2,801) | 216 | 5,232 | 44,025 | 98,852 | 82,910 | 886,985 | 16,987 | 903,972 | |

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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

For the six months ended June 30, 2015

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.
- (iii) The revaluation reserve represents the fair value adjustments on intangible assets attributable to the equity interest previously held by the Group at the date of acquisition of subsidiaries. The amount recognised in the revaluation reserve will be transferred to accumulated profits upon disposal of these subsidiaries or the relevant assets, whichever is earlier.
- (iv) According to the relevant laws in the People's Republic of China (the "PRC"), the subsidiaries of the Group established in the PRC are required to transfer at least 10% of their net profit after taxation, as determined under the PRC accounting regulations, to a non-distributable reserve fund until the reserve balance reaches 50% of their registered capital. The transfer to this reserve must be made before the distribution of a dividend to equity owners. The non-distributable reserve fund can be used to offset the previous years' losses, if any.

INTERIM RESULTS

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended June 30, 2015

| | For the six months ended June 30, | |
|--|--------------------------------------|---------------------------------|
| | 2015 US\$'000 (unaudited) | 2014 US\$'000 (unaudited) |
| Net cash from operating activities | 101,463 | 91,342 |
| Net cash used in investing activities | | |
| Purchase of property, plant and equipment | (13,925) | (8,557) |
| Deposit paid for acquisition of property, plant and equipment | (3,088) | (566) |
| Repayment of advance to (advance to) joint ventures | 644 | (865) |
| Proceeds from disposal of property, plant and equipment | 1,130 | 413 |
| Interest received | 1,312 | 1,395 |
| Placement of structured bank deposit | - | (9,743) |
| Acquisition of subsidiaries, net of cash and cash equivalents acquired | - | (4,741) |
| Deposit paid for acquisition of remaining interest in a subsidiary | - | (1,609) |
| Release of structured bank deposit | - | 2,144 |
| Proceeds from disposal of assets previously classified as held for sale | - | 4,026 |
| | (13,927) | (18,103) |
| Net cash used in financing activities | | |
| Repayment of bank borrowings | (260,386) | (162,973) |
| Interest paid | (4,328) | (5,330) |
| Advance from related and connected parties | 46,724 | 51,716 |
| Bank borrowings raised | 205,635 | 128,540 |
| Repayment of advance from related and connected parties | - | (40,828) |
| Other financing cash flows | (1,633) | (1,566) |
| | (13,988) | (30,441) |
| Net increase in cash and cash equivalents | 73,548 | 42,798 |
| Effect of foreign exchange rate changes | 431 | (1,185) |
| Cash and cash equivalents at beginning of the period | 43,743 | 42,359 |
| Cash and cash equivalents at end of the period, represented by bank balances and cash | 117,722 | 83,972 |

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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.

The accounting policies applied are consistent with those of the annual financial statements for the year ended December 31, 2014.

Adoption of amendments to 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 amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

| | |
|-----------------------|---|
| Amendments to HKAS 19 | Defined Benefit Plans: Employee Contributions |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2010 – 2012 Cycle |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2011 – 2013 Cycle |

The adoption of the amendments to 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.

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

3. REVENUE AND SEGMENTAL INFORMATION

The Group is principally engaged in the distribution and retailing of sportswear and footwear products and leasing of large scale commercial spaces to retailers and distributors for concessionaire sales. Information is reported on a regular basis to the chief operating decision maker ("CODM"), being the Board of Directors of the Company, for the purposes of resource allocation and assessment of segment performance. As the Group is now focusing on developing its business from products perspective to best streamline its operations, it has changed in the current year the structure of its internal reports that are provided to the CODM for their reviews. Specifically, discrete financial information in respect of "retail business", "brand licensee business", and "manufacturing business", which was previously provided to the CODM on a regular basis in prior years, is no longer made available to the CODM. The Group has determined that with effect from January 1, 2015, it has only one reportable segment. Accordingly, no segment information is presented other than entity-wide disclosures. Since the structure of the Group's internal organisation has been changed in a manner that causes the composition of its reportable segments to change, the corresponding segment information for the six months ended June 30, 2014 are restated.

Revenue from major business products

The following is an analysis of the Group's revenue from its major business products:

| | For the six months ended June 30, | |
|---|--|-------------|
| | 2015 | 2014 |
| | US\$'000 | US\$'000 |
| | (unaudited) | (unaudited) |
| Sales of sportswear and footwear products | 1,178,408 | 958,968 |
| Commissions from concessionaire sales | 8,793 | 7,625 |
| | 1,187,201 | 966,593 |

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

4. INCOME TAX EXPENSE

| | For the six months ended June 30, | |
|--|--------------------------------------|---------------------------------|
| | 2015 US\$'000 (unaudited) | 2014 US\$'000 (unaudited) |
| Taxation attributable to the Company and its subsidiaries: | | |
| Current tax: | | |
| Hong Kong Profits Tax (note i) | - | - |
| PRC Enterprise Income Tax ("EIT") (note ii) | 14,503 | 9,450 |
| Overseas income tax (note iii) | 179 | 792 |
| | 14,682 | 10,242 |
| Deferred tax (credit) charge | (35) | 39 |
| | 14,647 | 10,281 |

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

4. INCOME TAX EXPENSE (Continued)

notes:

(i) Hong Kong

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both periods.

(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 periods.

(iii) Overseas

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

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

5. PROFIT (LOSS) FOR THE PERIOD

| | For the six months ended June 30, | |
|---|--------------------------------------|---------------------------------|
| | 2015 US\$'000 (unaudited) | 2014 US\$'000 (unaudited) |
| Profit (loss) for the period has been arrived at after charging (crediting): | | |
| Total staff cost (included in selling and distribution expenses and administrative expenses) | 107,770 | 87,653 |
| Operating lease rentals and concessionaire fees in respect of shopping malls/retail outlets (included in selling and distribution expenses) | 142,846 | 117,111 |
| Depreciation of property, plant and equipment | 14,486 | 12,114 |
| (Reversal of allowance) allowance for inventories, net | (7,723) | 21,362 |
| Release of prepaid lease payments | 324 | 328 |
| Amortisation of intangible assets (included in selling and distribution expenses) | 3,941 | 3,839 |
| Net exchange (gain) loss (included in other operating income and gains (losses)) | (413) | 5,578 |
| Subsidies, rebates and other income from suppliers (included in other operating income and gains (losses)) | (7,398) | (7,791) |
| Impairment loss recognised on trade receivables (included in other operating income and gains (losses)) | 4,033 | 2,114 |
| Impairment loss recognised on other receivables (included in other operating income and gains (losses)) | 1,590 | 947 |
| Loss on deregistration of subsidiaries (included in other gains (losses)) | - | 233 |
| Impairment losses on loans to joint ventures (included in other gains (losses)) | 6,568 | 2,845 |
| Fair value gain on consideration payable for acquisition of business (included in other gains (losses)) | (637) | (562) |
| Fair value gain on structured bank deposit (included in other gains (losses)) | - | (74) |
| Impairment loss on consideration receivable for disposal of properties (included in other gains (losses)) | 2,566 | - |

INTERIM RESULTS

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, 2014: nil).

7. 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:

| | For the six months ended June 30, | |
|--|--------------------------------------|---------------------------------|
| | 2015 US\$'000 (unaudited) | 2014 US\$'000 (unaudited) |
| Earnings (loss): | | |
| Earnings (loss) for the period attributable to owners of the Company for the purposes of basic and diluted earnings (loss) per share | 26,325 | (1,842) |
| | | |
| | For the six months ended June 30, | |
| | 2015 | 2014 |
| Number of shares: | | |
| Weighted average number of ordinary shares for the purpose of basic earnings (loss) per share | 5,350,676,571 | 5,376,278,781 |
| Effect of dilutive potential ordinary shares: | | |
| – Unvested awarded shares | 15,579,492 | – |
| Weighted average number of ordinary shares for the purpose of diluted earnings (loss) per share | 5,366,256,063 | 5,376,278,781 |

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

7. EARNINGS (LOSS) PER SHARE (Continued)

The weighted average number of ordinary shares shown above has been arrived at after deducting the shares held by the trustee of the share award scheme of the Company (See Note 11(b)).

The computation of diluted earnings (loss) per share 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 relevant periods.

8. MOVEMENT IN PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired property, plant and equipment of US\$15,800,000 (six months ended June 30, 2014: US\$8,940,000).

9. TRADE AND OTHER RECEIVABLES

| | At June 30, 2015 US\$'000 (unaudited) | At December 31, 2014 US\$'000 (audited) |
|---|---|---|
| Trade receivables | 216,069 | 168,535 |
| Deposits, prepayments and other receivables | 156,741 | 147,693 |
| | 372,810 | 316,228 |

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

9. TRADE AND OTHER RECEIVABLES (Continued)

| | At June 30, 2015 US\$'000 (unaudited) | At December 31, 2014 US\$'000 (audited) |
|--|---|---|
| Deposits, prepayments and other receivables represent: | | |
| Rental deposits and prepaid rentals | 24,260 | 22,464 |
| Prepayments paid to suppliers | 58,078 | 42,671 |
| Value-added tax recoverable | 37,893 | 41,069 |
| Amounts due from related parties (note) | 11,714 | 16,232 |
| Other prepaid expenses | 8,308 | 5,215 |
| Prepaid lease payments – current | 651 | 650 |
| Other deposits and receivables | 15,837 | 19,392 |
| | 156,741 | 147,693 |

note: The amounts represent amounts due from certain joint ventures of US\$6,824,000 (December 31, 2014: US\$9,759,000), a non-controlling interest of a subsidiary of US\$4,833,000 (December 31, 2014: US\$4,826,000) and certain entities controlled by Yue Yuen Industrial (Holdings) Limited ("Yue Yuen"), an intermediate holding company whose shares being listed on the Stock Exchange, and its substantial shareholders of US\$57,000 (December 31, 2014: US\$1,647,000), and are unsecured and expected to be recovered within one year. Except for the amounts of (a) US\$4,586,000 (December 31, 2014: US\$4,557,000) due from certain joint ventures which carries variable interest rate ranging from 5.61% to 6.72% (December 31, 2014: ranging from 6.16% to 7.32%) per annum and (b) US\$4,833,000 (December 31, 2014: US\$4,826,000) due from a non-controlling interest of a subsidiary which carries fixed interest rate of 7.14% (December 31, 2014: 7.28%) per annum, the remaining balance is interest-free.

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

9. TRADE AND OTHER RECEIVABLES (Continued)

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

| | At June 30, 2015 US\$'000 (unaudited) | At December 31, 2014 US\$'000 (audited) |
|--------------|---|---|
| 0 - 30 days | 161,102 | 131,168 |
| 31 - 90 days | 40,970 | 20,774 |
| Over 90 days | 13,997 | 16,593 |
| | 216,069 | 168,535 |

INTERIM RESULTS

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

10. TRADE AND OTHER PAYABLES

| | At June 30, 2015 US\$'000 (unaudited) | At December 31, 2014 US\$'000 (audited) |
|---|---|---|
| Trade payables | 99,323 | 83,389 |
| Bills payables | 495 | 264 |
| Receipt in advance from customers | 47,809 | 45,354 |
| Amounts due to related and connected parties (note) | 47,835 | 750 |
| Accruals and other payables | 80,339 | 77,099 |
| | 275,801 | 206,856 |

note: The amounts represent amounts due to certain entities controlled by Yue Yuen and its substantial shareholders of US\$47,084,000 (December 31, 2014: nil) and non-controlling interests of subsidiaries of US\$751,000 (December 31, 2014: US\$750,000), and are unsecured and repayable on demand. Except for the amounts of (a) US\$46,724,000 (December 31, 2014: nil) due to an entity controlled by substantial shareholders of Yue Yuen which carries fixed interest rate of 4% per annum and (b) US\$751,000 (December 31, 2014: nil) due to the non-controlling interests of subsidiaries which carry fixed interest rate of 3.1% per annum, the remaining balance is interest-free.

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

10. TRADE AND OTHER PAYABLES (Continued)

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

| | At June 30, 2015 US\$'000 (unaudited) | At December 31, 2014 US\$'000 (audited) |
|--------------|---|---|
| 0 - 30 days | 95,279 | 81,559 |
| 31 - 90 days | 3,114 | 1,216 |
| Over 90 days | 1,425 | 878 |
| | 99,818 | 83,653 |

INTERIM RESULTS

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

11. SHARE OPTION SCHEME AND SHARE AWARD SCHEME

(a) Share Option Scheme

The existing share option scheme was adopted by the shareholders of the Company on May 14, 2008 and amended on March 7, 2012. Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

| | 2015 | | 2014 | |
|--|---|-------------------------|---|-------------------------|
| | Weighted average exercise price HK\$ | Number of share options | Weighted average exercise price HK\$ | Number of share options |
| As at January 1, | 1.39 | 55,012,000 | 1.38 | 57,067,000 |
| Lapsed/cancelled | N/A | - | 1.33 | (1,605,000) |
| As at June 30, | 1.39 | 55,012,000 | 1.39 | 55,462,000 |
| Exercisable at the end of the reporting period | 1.39 | 54,637,000 | 1.41 | 49,462,000 |

Share options outstanding at June 30, 2015 and December 31, 2014 have the following expiry dates and exercise prices:

| Year of expiry | Exercise price HK\$ | Number of share options at December 31, 2014 and June 30, 2015 |
|----------------|------------------------|--|
| 2018 | 1.62 | 23,112,000 |
| 2019 | 1.23 | 30,025,000 |
| 2020 | 1.05 | 1,875,000 |
| | | 55,012,000 |

INTERIM RESULTS

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

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

(b) Share Award Scheme

The share award scheme was adopted by the Company on May 9, 2014. Movement in the number of share awards outstanding is as follows:

| | Number of share awards | |
|------------------|------------------------|------|
| | 2015 | 2014 |
| As at January 1, | 11,500,000 | - |
| Granted | 8,900,000 | - |
| Lapsed/cancelled | (1,492,000) | - |
| As at June 30, | 18,908,000 | - |

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. The fair values of the share awards as at the date of grant, determined by APAC Asset Valuation and Consulting Limited ("APAC Asset Valuation") using the Black-Scholes Option Pricing Model, amounted to HK\$3,293,000 (equivalent to approximately US\$425,000). The key inputs into the Black-Scholes Option Pricing Model are as follows:

| | |
|--|----------------|
| Date of grant | March 21, 2015 |
| Closing share price at the date of grant | HK\$0.53 |
| Annual risk free rate | 0.731% |
| Expected volatility | 48% |
| Vesting period | 3 years |
| Expected dividend yield | Nil |

The closing price of the Company's shares immediately before the grant of the share awards on March 21, 2015 was HK\$0.53 per share.

INTERIM RESULTS

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

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

(b) Share Award Scheme (Continued)

During the six months ended June 30, 2015, 20,000,000 ordinary shares of the Company have been acquired at an aggregate cost of HK\$12,656,000 (equivalent to approximately US\$1,633,000). A total of 40,000,000 ordinary shares of the Company were held by the trustee of the share award scheme of the Company at June 30, 2015 (December 31, 2014: 20,000,000 ordinary shares).

12. CONTINGENCIES

| | At June 30, 2015 US\$'000 (unaudited) | At December 31, 2014 US\$'000 (audited) |
|---|---|---|
| Guarantee given to banks in respect of banking facilities granted to joint ventures | | |
| - amount guaranteed | - | 4,424 |
| - amount utilised | - | 1,609 |

INTERIM RESULTS

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

13. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

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

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 | | Fair value hierarchy |
|---|--|--|----------------------|
| | June 30, 2015 US\$'000 (unaudited) | December 31, 2014 US\$'000 (audited) | |
| Financial liability | | | |
| Consideration payable for acquisition of business | 15,808 | 16,436 | Level 3 |

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.

INTERIM RESULTS

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

13. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (Continued)

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

The fair value of the guaranteed compensation as at December 31, 2014 and June 30, 2015 is determined by APAC Asset Valuation using the Binomial Option Pricing Model.

The key inputs into the model are set out below:

| | At June 30, 2015 | At December 31, 2014 |
|--|--------------------------------|----------------------------|
| Share price at date of valuation | HK\$0.90 | HK\$0.74 |
| Exercise price per share | HK\$4.00 | HK\$4.00 |
| Risk free rate | 0.19% | 0.58% |
| Expected volatility | 55% | 47% |
| Expected life of the guaranteed compensation | 1.39 years | 1.89 years |
| Expected dividend yield | Nil | Nil |

INTERIM RESULTS

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

13. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (Continued)

(ii) Reconciliation of Level 3 Measurements

The following table presents the reconciliation of Level 3 Measurements of the Group's financial instruments for the six months ended June 30, 2015 and 2014.

| | Consideration payable for acquisition of business US\$'000 |
|---|--|
| <i>For the six months ended June 30, 2015</i> | |
| At January 1, 2015 (audited) | (16,436) |
| Fair value gain, recognised in profit or loss (included in other gains (losses)) | 637 |
| Exchange realignment | (9) |
| At June 30, 2015 (unaudited) | (15,808) |
| <i>For the six months ended June 30, 2014</i> | |
| At January 1, 2014 (audited) | (18,016) |
| Fair value gain, recognised in profit or loss (included in other gains (losses)) | 562 |
| Exchange realignment | (7) |
| At June 30, 2014 (unaudited) | (17,461) |

(iii) There were no significant changes in the business or economic circumstances that affect the fair value of the Group's financial instruments or any reclassification of financial instruments in any of the period ended June 30, 2015 or June 30, 2014.

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group visions to be the leading distributor in the Greater China region, specializes in sports & lifestyle market offering products & service that enhance the life of the consumers. During the last six months, the majority of revenue was derived from the retail business operations engaging in the sales of various international brand sportswear products including footwear, apparel and accessories to consumers through either our directly operated retail outlets, or to the retail outlets of our sub-distributors. As at June 30, 2015, the Group had 4,586 directly operated retail outlets and 2,691 sub-distributors' retail outlets. Within the network of the regional joint ventures, there were 504 directly operated retail outlets and 340 sub-distributors' retail outlets. The Group has been actively building up its exclusive distribution business, especially with international brands. During the period, the Group was the exclusive distributor for O'Neill (in Mainland China, Hong Kong and Macau), Rockport (in Mainland China), Oakley (in Mainland China mono-brand store channel), Sperry (in Taiwan) & Keds (in Taiwan).

In addition, we also cover the brand license business, by which the Group has the exclusive rights to design, develop, manufacture, market and distribute, and the flexibility to set retail prices for the brand products at the designated markets for a specified period of time. During the period, the Group was the brand licensee for Hush Puppies (in Taiwan) and for PONY (in Mainland China and Taiwan).

FINANCIAL REVIEW

For the first six months, the Group recorded revenue of US\$1,187.2 million, representing an increase of 22.8% as compared with the same period last year. For gross profit, the Group recorded US\$381.8 million which was an increase of 32.6% against the same period last year. Finally, the profit attributable to owners of the Company in the current period was US\$26.3 million, a significant improvement compared with the loss attributable to owners of the Company of US\$1.8 million in the first half of fiscal year 2014.

REVENUE

Total revenue for the Group increased by 22.8% to US\$1,187.2 million for the six months ended June 30, 2015, as compared with US\$966.6 million reported in the same period last year. The increase was due to continued improvement in efficiency of the operations as well as stronger market demand.

MANAGEMENT DISCUSSION AND ANALYSIS

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GROSS PROFIT

Gross profit for the Group amounted to US\$381.8 million and the gross profit margin was 32.2%. Both gross profit amount and gross profit margin were better than the comparable figures achieved in the same period last year. The better gross profit was due to the growth in sales, better inventory management and less drastic discounting.

SELLING AND DISTRIBUTION EXPENSES AND ADMINISTRATIVE EXPENSES

The various changes to the store network implemented by management helped to increase efficiency and management control. Selling and distribution expenses and administrative expenses of the Group for the period were in aggregate US\$334.2 million, representing an US\$56.2 million, or 20.2% increase, as compared with the last corresponding period. In terms of percentage, the ratio of expenses to revenue was 28.2% (2014: 28.8%).

OPERATING PROFIT

The Group operating profit margin for the period was 4.6%, and operating profit was US\$55.1 million, a substantial improvement compared with the operating profit of US\$15.8 million in the same period last year.

OTHER GAINS (LOSSES) ARISING OTHER THAN OPERATING ACTIVITIES

The Group incurred various gains (losses) from a variety of situations amounting the net losses of US\$8.5 million in the first six months. Amongst others, there were impairment losses on (1) loans to joint ventures of US\$6.6 million and (2) consideration receivable for disposal of properties of US\$2.6 million.

PROFIT FOR THE PERIOD

Due to the aforementioned reasons, profit for the Group for the six months ended June 30, 2015 was US\$28.7 million which was a large improvement over the loss of US\$2.6 million in the same period last year.

MANAGEMENT DISCUSSION AND ANALYSIS

WORKING CAPITAL EFFICIENCY

The average inventory turnover period for the period was 127 days (2014: 160 days). The reduction in inventory turnover period was due to the tighter scrutiny of inventory at the stores and the increase in consumer spending during the period. The Group continues to explore different strategies for managing inventory so as to optimize working capital levels. The average trade receivables turnover period was 30 days (2014: 31 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 21 days (2014: 24 days).

LIQUIDITY AND FINANCIAL RESOURCES

As at June 30, 2015, the Group's cash and cash equivalents were US\$117.7 million (December 31, 2014: US\$43.7 million) and working capital (current assets minus current liabilities) was US\$591.1 million (December 31, 2014: US\$552.1 million). Our total bank borrowings decreased by 27.7% to US\$142.0 million from US\$196.5 million as at December 31, 2014 and are repayable within one year. The Group's current ratio was 239% (December 31, 2014: 236%). The gearing ratio (total borrowings to total equity) was 16% (December 31, 2014: 22%).

During the period, net cash generated from operating activities was US\$101.5 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\$13.9 million, of which US\$17.0 million was used to purchase of property, plant and equipment. Net cash used in financing activities was US\$14.0 million. During the period, the Group raised and repaid bank borrowings of US\$205.6 million and US\$260.4 million respectively.

CAPITAL EXPENDITURE

The Group's capital expenditures primarily comprised of payments and deposits for purchase of furniture, fixtures and equipment and leasehold improvement. During the period under review, the total capital expenditure was US\$17.0 million (2014: US\$9.1 million).

MANAGEMENT DISCUSSION AND ANALYSIS

FOREIGN EXCHANGE

The Group conducted its business primarily in Mainland China with substantially all of its transactions denominated and settled in Renminbi. An appreciation or depreciation between US dollars and Renminbi may result in an exchange difference arising on translation which is recognized either as other comprehensive income or expense in the condensed consolidated statement of comprehensive income as the US dollar is used as our reporting currency. As at June 30, 2015, the Group had no significant hedge for the foreign exchange exposure. Notwithstanding the Group is concerned with the volatility of the US dollar against the RMB exchange rate and may enter in foreign exchange forward contract or foreign currency options, to hedge against the currency risk arising from foreign currency transactions when necessary.

BUSINESS MODEL

The operating environment for the Group has seen gradual improvement year on year compared to year 2014. First, the economies outside of the Greater China region are still improving; with economic indicators in North America signaling mature growth and indicators in Europe suggesting an initial phase of growth has just begun. With strength in the global economy becoming more obvious, it is most probable that the Mainland China economy will experience a moderate level of growth as opposed to a full scale hard landing in the near future: economic indicators show that Mainland China continues to have a resilient economy despite some indications of lower activity. The Central Government in Mainland China has taken actions that demonstrate they understand the issues that need to be managed within the economy, and there has been some pick up in consumption in certain industries. The sportswear industry has been reporting respectable sales figures for both the international brands as well as the domestic brands. Many industry observers feel that the earlier problems of excess shop outlets and excess inventory in the industry distribution channels have almost been resolved. The stage has been set for sportswear brands to move on to a gradual trend of increasing sales and a higher level of profits.

MANAGEMENT DISCUSSION AND ANALYSIS

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 Mainland China. 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. The Group's main concern is to continue improving the efficiency of its 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 Mainland China 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, the Group has taken various actions. The 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 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 Mainland China, making sure we understand their sophistication and desires. Besides constantly assessing our portfolio mix to ensure we have the best portfolio of brands, we have 1) expanded our capabilities to distribute outdoor performance branded apparel and footwear; 2) been preparing to launch a new multi-brand store format for selected stores to capture consumer spending in a more effective manner; and 3) established 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 to participate in the outdoor leisure brand business to benefit from markets trends and to 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 to fulfill the specific needs of consumers in Mainland China market.

MANAGEMENT DISCUSSION AND ANALYSIS

PROSPECTS

The Group is optimistic about a sustainable long-term growth of the sports industry in Mainland China as consumers increasingly recognize that physical activity is an important component for maintaining good health, that their rising incomes makes sportswear affordable to them, and as a result of the greater publicity surrounding global sporting events, they will find it more entertaining to participate in outdoor and sports activities. The State Council has issued its strategy blueprint regarding its vision for the nation's fitness and the development of the sports industry. The council will provide unwavering support to the sports industry and expects by year 2025 the industry will have a value in excess of US\$800 billion (equal to RMB5 trillion). Major athletic and outdoor performance brands continue to be active in developing the opportunities in Mainland China. These performance brands have also dedicated resources and staff to study and understand the nature of the Mainland China market. Together with the Group, these brands have also been strategizing how best to help consumers recognize that "performance" athletic or outdoor products have superior features compared to lifestyle products. The Group believes that as consumers become more knowledgeable, their appreciation of functional products will increase.

We believe that year 2015 will be more favorable to the Group as compared to last year and will serve as a solid foundation for good operating performance in 2016.

HUMAN RESOURCES

As at June 30, 2015, the Group had a total of 22,900 employees. The Group provides competitive remuneration packages that are determined with reference to prevailing salary levels in the market and individual performance. It offers award shares to eligible employees in order to provide them with incentives and to recognize their contributions and ongoing efforts. In addition, the Group provides other fringe benefits, such as social insurance, mandatory provident funds, medical coverage and training programs to employees based on their respective personal career development.

OTHER INFORMATION

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

As at June 30, 2015, 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 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 Rule, were as follows:

Long Position in shares

(a) The Company

Ordinary shares of HK\$0.01 each of the Company

| Name of Director | Capacity | Number of ordinary shares | | | | Total | Percentage of the issued share capital |
|----------------------|------------------|---------------------------|-----------------|--------------------|----------------|------------|--|
| | | Personal Interest | Family Interest | Corporate Interest | Other Interest | | |
| 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 | 3,700,000 ¹ | - | - | - | 3,700,000 | 0.07% |

Note:

¹ Included interests in 1,200,000 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.

OTHER INFORMATION

(b) Associated Corporation – Yue Yuen Industrial (Holdings) Limited (“Yue Yuen”)

Ordinary shares of HK\$0.25 each of Yue Yuen

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

Notes:

- ¹ Each of Mr. Tsai David, Nai Fung and Ms. Tsai Patty, Pei Chun is deemed to be interested in these shares by virtue of his/her capacity as a beneficiary of a discretionary trust.
- ² Awarded shares granted to Mr. Kwan, Heh-Der pursuant to a share award scheme of Yue Yuen which are subject to certain vesting conditions and remained unvested.

Save as disclosed above, none of the Directors or chief executives of the Company had, as at June 30, 2015 any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

OTHER INFORMATION

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at June 30, 2015, 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 | <i>Notes</i> | Capacity/ Nature of interest | Number of ordinary shares held | Percentage of the issued share capital |
|--|--------------|---|---|---|
| Major Focus Management Limited ("Major Focus") | (a) | Beneficial owner | 3,295,923,560 | 61.27% |
| Yue Yuen | (a), (b) | Interest of a controlled corporation/ Beneficial owner | 3,295,923,560 | 61.27% |
| Wealthplus Holdings Limited ("Wealthplus") | (b) | Interest of a controlled corporation | 3,295,923,560 | 61.27% |
| Pou Chen Corporation ("PCC") | (b) | Interest of a controlled corporation | 3,295,923,560 | 61.27% |

OTHER INFORMATION

Notes:

All the shares are long positions.

- (a) 3,295,923,560 shares are held by Major Focus, a wholly-owned subsidiary of Yue Yuen.
- (b) PCC is deemed to be interested in these shares under the SFO by virtue of its interests in more than one third of the voting shares in Wealthplus, which in turn is deemed to be interested in these shares under the SFO by virtue of its interests in more than one third of the voting shares in Yue Yuen. Wealthplus is wholly owned by PCC and is interested in more than one third of the issued share capital of Yue Yuen.

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

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

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 June 30, 2015, the Directors were not aware of any other person (other than Directors or chief executives of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were required, pursuant to Section 336 of the SFO, to be entered into the register referred to therein.

OTHER INFORMATION

SHARE OPTION SCHEME

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

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

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

No share options were granted, exercised, lapsed or cancelled under the Share Option Scheme during the six months ended June 30, 2015. As at the date of this Report, the total number of shares available for issue under the Share Option Scheme is 330,405,000 shares, representing approximately 6.14% of the total number of issued shares of the Company. As at June 30, 2015, an aggregate of 55,012,000 shares are issuable for share options granted (including 54,637,000 fully-vested shares options) under the Share Option Scheme, representing approximately 1.02% of the total number of issued shares of the Company.

During the six months ended June 30, 2015, the Group recognized a total expense of US\$13,000 in relation to share options granted by the Company under the Share Option Scheme.

OTHER INFORMATION

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

| Date of grant | Exercise price HK\$ | Vesting date | Exercisable period | Number of share options | | | | Balance at June 30, 2015 |
|------------------------------|------------------------|--------------|-----------------------|----------------------------|---------------------------|-----------------------------|------------------------------------|--------------------------|
| | | | | Balance at January 1, 2015 | Granted during the period | Exercised during the period | Lapsed/cancelled during the period | |
| Employees/Consultants | | | | | | | | |
| 21.01.2010 | 1.62 | 21.01.2011 | 21.01.2011-20.01.2018 | 2,500,950 | - | - | - | 2,500,950 |
| | | 21.01.2012 | 21.01.2012-20.01.2018 | 2,500,950 | - | - | - | 2,500,950 |
| | | 21.01.2013 | 21.01.2013-20.01.2018 | 5,001,900 | - | - | - | 5,001,900 |
| | | 21.01.2014 | 21.01.2014-20.01.2018 | 6,669,200 | - | - | - | 6,669,200 |
| 20.01.2011 | 1.23 | 20.01.2012 | 20.01.2012-19.01.2019 | 4,800,000 | - | - | - | 4,800,000 |
| | | 20.01.2013 | 20.01.2013-19.01.2019 | 4,800,000 | - | - | - | 4,800,000 |
| | | 20.01.2014 | 20.01.2014-19.01.2019 | 4,800,000 | - | - | - | 4,800,000 |
| | | 20.01.2015 | 20.01.2015-19.01.2019 | 4,800,000 | - | - | - | 4,800,000 |
| 07.03.2012 | 1.05 | 07.03.2013 | 07.03.2013-06.03.2020 | 375,000 | - | - | - | 375,000 |
| | | 07.03.2014 | 07.03.2014-06.03.2020 | 375,000 | - | - | - | 375,000 |
| | | 07.03.2015 | 07.03.2015-06.03.2020 | 375,000 | - | - | - | 375,000 |
| | | 07.03.2016 | 07.03.2016-06.03.2020 | 375,000 | - | - | - | 375,000 |
| Sub-total | | | | 37,373,000 | - | - | - | 37,373,000 |
| Former Employees | | | | | | | | |
| 21.01.2010 | 1.62 | 21.01.2011 | 21.01.2011-20.01.2018 | 1,999,500 | - | - | - | 1,999,500 |
| | | 21.01.2012 | 21.01.2012-20.01.2018 | 1,999,500 | - | - | - | 1,999,500 |
| | | 21.01.2013 | 21.01.2013-20.01.2018 | 1,788,000 | - | - | - | 1,788,000 |
| | | 21.01.2014 | 21.01.2014-20.01.2018 | 652,000 | - | - | - | 652,000 |
| 20.01.2011 | 1.23 | 20.01.2012 | 20.01.2012-19.01.2019 | 6,937,500 | - | - | - | 6,937,500 |
| | | 20.01.2013 | 20.01.2013-19.01.2019 | 3,187,500 | - | - | - | 3,187,500 |
| | | 20.01.2014 | 20.01.2014-19.01.2019 | 700,000 | - | - | - | 700,000 |
| | | 20.01.2015 | 20.01.2015-19.01.2019 | - | - | - | - | - |
| 07.03.2012 | 1.05 | 07.03.2013 | 07.03.2013-06.03.2020 | 375,000 | - | - | - | 375,000 |
| | | 07.03.2014 | 07.03.2014-06.03.2020 | - | - | - | - | - |
| | | 07.03.2015 | 07.03.2015-06.03.2020 | - | - | - | - | - |
| | | 07.03.2016 | 07.03.2016-06.03.2020 | - | - | - | - | - |
| Sub-total | | | | 17,639,000 | - | - | - | 17,639,000 |
| Grand total | | | | 55,012,000 | - | - | - | 55,012,000 |

OTHER INFORMATION

SHARE AWARD SCHEME

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

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

Eligible participant(s) selected by the Board for participation in the Share Award Scheme shall have no right to any dividend held under the trust which shall form part of the residual cash or any of the returned shares. The trustee of the Share Award Scheme shall not exercise the voting rights in respect of any shares held under the trust (including but not limited to the awarded shares, the returned shares, any bonus shares and scrip shares).

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

| | Date of grant | Vesting date | Number of share awards | | | | Balance at June 30, 2015 |
|------------------|---------------|--------------|----------------------------|---------------------------|--------------------------|-------------------------------------|--------------------------|
| | | | Balance at January 1, 2015 | Granted during the period | Vested during the period | Lapsed/ cancelled during the period | |
| 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 | 10,300,000 | - | - | (1,400,000) | 8,900,000 |
| | 21.03.2015 | 21.03.2018 | - | 8,900,000 | - | (92,000) | 8,808,000 |
| Sub-total | | | 10,300,000 | 8,900,000 | - | (1,492,000) | 17,708,000 |
| Grand total | | | 11,500,000 | 8,900,000 | - | (1,492,000) | 18,908,000 |

OTHER INFORMATION

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During the six months ended June 30, 2015, the Group recognized US\$134,000 as equity-settled share-based payments in the condensed consolidated income statement under the Share Award Scheme.

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended June 30, 2015, 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\$1.6 million.

UPDATE ON DIRECTORS' INFORMATION

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes in information of the Directors after March 20, 2015, the date of the Company's 2014 annual report are set out below:

- The service agreement of Mr. Wu, Pan-Tsu as a director of the Company has been renewed for a period of three years commencing on April 9, 2015 on substantially the same terms except that he is not entitled to any salary during the three-year period.

REVIEW OF ACCOUNTS

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, 2015.

The external auditor has reviewed the interim financial information for the six months ended June 30, 2015 in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA.

OTHER INFORMATION

CORPORATE GOVERNANCE

During the six months ended June 30, 2015, the Company has applied the principles of and has complied with all code provisions set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 of 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, 2015.

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. Hsieh, Wuei-Jung and Mr. Shan Xue are the Independent Non-executive Directors.

By Order of the Board
Tsai David, Nai Fung
Chairman

Hong Kong, August 13, 2015

Website: www.pousheng.com