



# 2017

INTERIM REPORT

**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

- 2** Corporate Information
- 3** The Group's Financial Highlights
  - Interim Results
- 4** Condensed Consolidated Income Statement
- 5** Condensed Consolidated Statement of Comprehensive Income
- 6** Condensed Consolidated Statement of Financial Position
- 8** Condensed Consolidated Statement of Changes in Equity
- 10** Condensed Consolidated Statement of Cash Flows
- 12** Notes to The Condensed Consolidated Interim Financial Information
- 30** Management Discussion and Analysis
- 36** Other Information



## CORPORATE INFORMATION

### DIRECTORS

#### Executive Directors

Wu, Pan-Tsu (Chairman)  
Lee, Shao-Wu (Chief Executive Officer)  
(appointed as executive Director and acting Chief Executive Officer on February 6, 2017 and re-designated as Chief Executive Officer on March 24, 2017)  
Kwan, Heh-Der (Chief Executive Officer)  
(resigned on January 6, 2017)

#### Non-executive Directors

Tsai Patty, Pei Chun  
Li I-nan

#### Independent Non-executive Directors

Chen, Huan-Chung  
Hsieh, Wuei-Jung  
Shan Xue

### AUDIT COMMITTEE

Chen, Huan-Chung (Chairman)  
Tsai Patty, Pei Chun  
Shan Xue

### REMUNERATION COMMITTEE

Hsieh, Wuei-Jung (Chairman)  
Chen, Huan-Chung  
Li I-nan

### NOMINATION COMMITTEE

Wu, Pan-Tsu (Chairman)  
Chen, Huan-Chung  
Shan Xue

### AUTHORISED REPRESENTATIVES

Wu, Pan-Tsu (appointed on January 19, 2017)  
Tsai Patty, Pei Chun  
Chong Yim Kuen (ceased on January 19, 2017)

### COMPANY SECRETARY

Fan Kam Wing (appointed on May 12, 2017)  
Chong Yim Kuen (resigned on January 19, 2017)

### REGISTERED OFFICE

Clarendon House  
2 Church Street  
Hamilton HM 11  
Bermuda

### PRINCIPAL PLACE OF BUSINESS

22nd Floor, C-Bons International Center  
108 Wai Yip Street, Kwun Tong  
Kowloon, Hong Kong

### INDEPENDENT AUDITOR

Deloitte Touche Tohmatsu

### PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

MUFG Fund Services (Bermuda) Limited  
The Belvedere Building  
69 Pitts Bay Road  
Pembroke HM08  
Bermuda

### HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

### SOLICITOR

Reed Smith Richards Butler

### PRINCIPAL BANKERS

ANZ Bank (Taiwan) Limited  
Australia and New Zealand Bank (China) Company Limited  
Bank of America, N.A.  
Bank SinoPac  
Citibank (China) Co., Limited  
Hang Seng Bank (China) Limited  
HSBC Bank (China) Company Limited  
Industrial and Commercial Bank of China Limited  
Mizuho Bank, Limited  
Standard Chartered Bank (China) Limited  
Standard Chartered Bank (Hong Kong) Limited  
Standard Chartered Bank (Taiwan) Limited

### WEBSITE

[www.pousheng.com](http://www.pousheng.com)

### STOCK CODE

3813

## THE GROUP'S FINANCIAL HIGHLIGHTS

For the six months ended June 30,

	2017 (unaudited)	2016 (unaudited and restated)	Percentage increase (decrease)
Revenue (RMB'000)	9,515,092	8,312,889	14.5%
Operating profit (RMB'000)	505,753	570,570	(11.4)%
Profit attributable to owners of the Company (RMB'000)	298,612	371,438	(19.6)%
Basic earnings per share (RMB cents)	5.73	7.10	(19.3)%
Dividend per share – Interim dividend (HK\$)	-	0.02	(100.0)%

# YY SPORTS

## 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, 2017 with the corresponding comparative figures as follows:

### CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended June 30, 2017

		For the six months ended June 30,	
	NOTES	2017 RMB'000 (unaudited)	2016 RMB'000 (unaudited and restated)
Revenue	4	9,515,092	8,312,889
Cost of sales		(6,223,056)	(5,354,052)
Gross profit		3,292,036	2,958,837
Other operating income and gains (losses)		134,160	108,163
Selling and distribution expenses		(2,591,057)	(2,170,429)
Administrative expenses		(329,386)	(326,001)
Operating profit		505,753	570,570
Finance costs		(52,065)	(28,999)
Finance income		2,972	6,659
Finance costs - net		(49,093)	(22,340)
Share of results of an associate		-	(7,225)
Share of results of joint ventures		(2,472)	892
Other (losses) gains		(4,363)	14,923
Profit before taxation		449,825	556,820
Income tax expense	5	(138,285)	(174,091)
<b>Profit for the period</b>	6	<b>311,540</b>	<b>382,729</b>
Attributable to:			
Owners of the Company		298,612	371,438
Non-controlling interests		12,928	11,291
		<b>311,540</b>	<b>382,729</b>
Earnings per share	8		
- Basic		<b>RMB5.73 cents</b>	RMB7.10 cents
- Diluted		<b>RMB5.68 cents</b>	RMB7.04 cents

## INTERIM RESULTS

### CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended June 30, 2017

	For the six months ended June 30,	
	2017 RMB'000 (unaudited)	2016 RMB'000 (unaudited and restated)
<b>Profit for the period</b>	<b>311,540</b>	382,729
<b>Other comprehensive (expense) income</b> <i>An item that may be reclassified subsequently to profit or loss</i>		
Exchange difference arising on translation of foreign operations	(1,084)	2,476
<b>Total comprehensive income for the period</b>	<b>310,456</b>	385,205
Attributable to:		
Owners of the Company	297,495	373,857
Non-controlling interests	12,961	11,348
	<b>310,456</b>	385,205

## INTERIM RESULTS

### CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At June 30, 2017

	NOTES	At June 30, 2017 RMB'000 (unaudited)	At December 31, 2016 RMB'000 (audited)
<b>Non-current assets</b>			
Property, plant and equipment	9	990,885	902,732
Deposit paid for acquisition of property, plant and equipment		73,429	55,224
Prepaid lease payments		143,000	143,621
Rental deposits and prepayments		133,678	127,335
Intangible assets	10	565,148	614,678
Goodwill		532,794	532,450
Interests in joint ventures		49,319	51,791
Loans to joint ventures		17,500	17,500
Available-for-sale investments		2,228	2,156
		<b>2,507,981</b>	2,447,487
<b>Current assets</b>			
Inventories		4,511,060	4,400,649
Trade and other receivables	11	2,756,789	2,412,346
Taxation recoverable		2	1,526
Bank balances and cash		448,852	482,635
		<b>7,716,703</b>	7,297,156
Assets classified as held for sale		10,000	299,133
		<b>7,726,703</b>	7,596,289

## INTERIM RESULTS

### CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

At June 30, 2017

	NOTE	At June 30, 2017 RMB'000 (unaudited)	At December 31, 2016 RMB'000 (audited)
<b>Current liabilities</b>			
Trade and other payables	12	1,467,555	2,006,378
Taxation payable		110,600	64,664
Bank borrowings		2,171,627	1,375,826
Consideration payable for acquisition of business		-	60,439
		<b>3,749,782</b>	3,507,307
Liabilities associated with assets classified as held for sale		-	230,309
		<b>3,749,782</b>	3,737,616
<b>Net current assets</b>		<b>3,976,921</b>	3,858,673
<b>Total assets less current liabilities</b>		<b>6,484,902</b>	6,306,160
<b>Non-current liability</b>			
Deferred tax liabilities		160,281	172,649
<b>Net assets</b>		<b>6,324,621</b>	6,133,511
<b>Capital and reserves</b>			
Share capital		46,525	46,523
Reserves		6,235,035	6,057,008
Equity attributable to owners of the Company		6,281,560	6,103,531
Non-controlling interests		43,061	29,980
<b>Total equity</b>		<b>6,324,621</b>	6,133,511

## INTERIM RESULTS

### CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended June 30, 2017

	Equity attributable to owners of the Company														
	Share capital RMB'000	Share premium RMB'000	Special reserve RMB'000 (note (i))	Other reserve RMB'000 (note (ii))	Revaluation reserve RMB'000 (note (iii))	Merger reserve RMB'000 (note (iv))	Shares held under share award scheme RMB'000	Share award reserve RMB'000	Share-based compensation reserve RMB'000	Non-distributable reserve RMB'000 (note (v))	Translation reserve RMB'000	Accumulated profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total RMB'000
At January 1, 2016 (audited)	46,877	5,188,728	676,506	(1,445,655)	55,395	37,730	(76,411)	3,002	34,508	302,438	(18,487)	937,743	5,742,374	45,356	5,787,730
Exchange difference arising on translation of foreign operations (restated)	-	-	-	-	-	-	-	-	-	-	2,419	-	2,419	57	2,476
Profit for the period (restated)	-	-	-	-	-	-	-	-	-	-	-	371,438	371,438	11,291	382,729
Total comprehensive income for the period	-	-	-	-	-	-	-	-	-	-	2,419	371,438	373,857	11,348	385,205
Repurchase of own shares	(453)	(64,780)	-	-	-	-	-	-	-	-	-	-	(65,233)	-	(65,233)
Recognition of equity-settled share-based payments, net of amount forfeited relating to share options and share awards not yet vested	-	-	-	-	-	-	-	2,147	(75)	-	-	-	2,072	-	2,072
Exercise of share options	52	10,205	-	-	-	-	-	-	(3,544)	-	-	-	6,713	-	6,713
Capital injection to a subsidiary by an intermediate holding company before an acquisition by the Group under common control (restated)	-	-	-	-	-	54,448	-	-	-	-	-	-	54,448	-	54,448
Transfer	-	-	-	-	-	-	-	-	-	28,662	-	(28,662)	-	-	-
At June 30, 2016 (unaudited and restated)	46,476	5,134,153	676,506	(1,445,655)	55,395	92,178	(76,411)	5,149	30,889	331,100	(16,068)	1,280,519	6,114,231	56,704	6,170,935
At January 1, 2017 (audited)	46,523	5,144,095	676,506	(1,445,655)	55,395	29,544	(138,275)	9,848	27,956	401,098	(13,097)	1,309,593	6,103,531	29,980	6,133,511
Exchange difference arising on translation of foreign operations	-	-	-	-	-	-	-	-	-	-	(1,117)	-	(1,117)	33	(1,084)
Profit for the period	-	-	-	-	-	-	-	-	-	-	-	298,612	298,612	12,928	311,540
Total comprehensive (expense) income for the period	-	-	-	-	-	-	-	-	-	-	(1,117)	298,612	297,495	12,961	310,456
Recognition of equity-settled share-based payments, net of amount forfeited relating to share options and share awards not yet vested	-	-	-	-	-	-	-	4,388	1,695	-	-	-	6,083	-	6,083
Exercise of share options	2	389	-	-	-	-	-	-	(138)	-	-	-	253	-	253
Disposal of subsidiaries (Note 13)	-	-	-	-	-	-	-	-	-	-	-	-	-	(33,015)	(33,015)
Acquisition of remaining interest in subsidiaries	-	-	-	(33,135)	-	-	-	-	-	-	-	-	(33,135)	33,135	-
Dividends recognised as distribution (Note 7)	-	-	-	-	-	-	-	-	-	-	-	(92,667)	(92,667)	-	(92,667)
Transfer	-	-	-	-	-	-	-	-	-	16,139	-	(16,139)	-	-	-
At June 30, 2017 (unaudited)	46,525	5,144,484	676,506	(1,478,790)	55,395	29,544	(138,275)	14,236	29,513	417,237	(14,214)	1,499,399	6,281,560	43,061	6,324,621

## INTERIM RESULTS

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

For the six months ended June 30, 2017

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/liabilities 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) The merger reserve represents the difference in the fair value of the consideration paid to Yue Yuen (as defined in Note 2) for the acquisition of subsidiaries controlled by Yue Yuen and the share capital and premium of the acquired subsidiaries.
- (v) According to the relevant laws in the People's Republic of China (the "PRC"), the subsidiaries of the Company 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, 2017

	NOTE	For the six months ended June 30,	
		2017 RMB'000 (unaudited)	2016 RMB'000 (unaudited and restated)
<b>Net cash used in operating activities</b>		<b>(111,435)</b>	(202,418)
<b>Net cash used in investing activities</b>			
Placement of structured bank deposits		(330,000)	-
Purchase of property, plant and equipment		(202,094)	(122,747)
Deposit paid for acquisition of property, plant and equipment		(73,429)	(20,945)
Repayment of consideration payable for acquisition of business		(60,439)	-
Advance to a non-controlling interest of a subsidiary		(40,000)	(50,000)
Addition of prepaid lease payment		(1,522)	-
Advance to a joint venture		(518)	-
Release of structured bank deposits		330,000	-
Repayment of advance to a non-controlling interest of a subsidiary		40,000	40,000
Proceeds from disposal of subsidiaries (net of cash and cash equivalents disposed of)	13	20,618	-
Repayment of advance to joint ventures		12,466	10,034
Proceeds from disposal of property, plant and equipment		4,347	1,860
Interest received		2,972	6,659
Dividends received from an available-for-sale investment		240	-
Release of pledged bank deposits		-	5,997
Deposit received for an asset classified as held for sale		-	1,500
		<b>(297,359)</b>	(127,642)

## INTERIM RESULTS

### CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

For the six months ended June 30, 2017

	For the six months ended June 30,	
	2017 RMB'000 (unaudited)	2016 RMB'000 (unaudited and restated)
<b>Net cash from financing activities</b>		
Repayment of bank borrowings	(1,914,467)	(1,214,567)
Repayment of advance from related and connected parties	(761,793)	(961,672)
Dividends paid	(91,524)	-
Interest paid	(52,065)	(28,999)
Bank borrowings raised	2,714,712	1,688,254
Advance from related and connected parties	471,793	959,676
Proceeds from issue of shares upon exercise of share options	253	6,713
Shares repurchased	-	(65,233)
Capital injection to a subsidiary by an intermediate holding company before an acquisition by the Group under common control	-	54,448
	<b>366,909</b>	<b>438,620</b>
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(41,885)</b>	<b>108,560</b>
Effect of foreign exchange rate changes	(1,280)	8,120
<b>Cash and cash equivalents at beginning of the period</b>	<b>492,017</b>	<b>196,952</b>
<b>Cash and cash equivalents at end of the period, represented by bank balances and cash</b>	<b>448,852</b>	<b>313,632</b>

## INTERIM RESULTS

### NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

#### 1. BASIS OF PREPARATION

The condensed consolidated interim financial information has 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 and with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

#### 2. APPLICATION OF MERGER ACCOUNTING

On November 14, 2016, Winning Team Holdings Limited, an indirect wholly-owned subsidiary of the Company, acquired from Key International Co., Ltd., an indirect wholly-owned subsidiary of Yue Yuen Industrial (Holdings) Limited (“Yue Yuen”), an intermediate holding company of the Company, the entire equity interests in PCG Bros (Holdings) Co. Limited (“PCG Bros”) for a cash consideration of US\$9,226,008.82 (equivalent to approximately RMB62,634,000.00). PCG Bros and its subsidiaries (collectively referred to as “PCG Bros Group”) are principally engaged in sports marketing and organisation of sports events in Taiwan.

The Group and PCG Bros Group are both under the control of Yue Yuen before and after the date of acquisition, and that control is not transitory. The Group and PCG Bros Group are regarded as continuing entities as at the date of business combinations and hence the acquisition has been accounted for as combination of entities under common control by applying the principles of merger accounting in accordance with Accounting Guideline 5 “Merger Accounting for Common Control Combinations” issued by the HKICPA. Accordingly, the condensed consolidated income statement, condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows of the Group for the six months ended June 30, 2016 have been restated to include the financial performance, changes in equity and cash flows of PCG Bros Group as if the current group structure upon the completion of the group reorganisation had been in existence throughout the six months ended June 30, 2016, or since their respective dates of incorporation or establishment where this is a shorter period.

The effects of all transactions between the Group and PCG Bros Group, whether occurring before and after the acquisition, are eliminated in preparing the condensed consolidated financial statements.

## INTERIM RESULTS

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

#### 2. APPLICATION OF MERGER ACCOUNTING (continued)

The effects of acquisition of PCG Bros Group using merger accounting on the condensed consolidated income statement and condensed consolidated statement of comprehensive income for the six months ended June 30, 2016 are as follows:

	For the six months ended June 30, 2016			
	Originally stated RMB'000	Adjustments on merger accounting RMB'000	Elimination RMB'000	Restated RMB'000
Revenue	8,312,889	-	-	8,312,889
Cost of sales	(5,354,052)	-	-	(5,354,052)
Gross profit	2,958,837	-	-	2,958,837
Other operating income and gains (losses)	108,775	(376)	(236)	108,163
Selling and distribution expenses	(2,169,437)	(992)	-	(2,170,429)
Administrative expenses	(314,203)	(12,034)	236	(326,001)
Operating profit (loss)	583,972	(13,402)	-	570,570
Finance costs	(28,904)	(95)	-	(28,999)
Finance income	6,643	16	-	6,659
Finance costs - net	(22,261)	(79)	-	(22,340)
Share of results of an associate	(7,225)	-	-	(7,225)
Share of results of joint ventures	892	-	-	892
Other gains (losses)	14,923	-	-	14,923
Profit before taxation	570,301	(13,481)	-	556,820
Income tax expense	(174,091)	-	-	(174,091)
<b>Profit (loss) for the period</b>	<b>396,210</b>	<b>(13,481)</b>	<b>-</b>	<b>382,729</b>
Attributable to:				
Owners of the Company	384,919	(13,481)	-	371,438
Non-controlling interests	11,291	-	-	11,291
	396,210	(13,481)	-	382,729
Earnings (loss) per share				
- Basic	RMB7.36 cents	RMB(0.26) cents	-	RMB7.10 cents
- Diluted	RMB7.30 cents	RMB(0.26) cents	-	RMB7.04 cents

## INTERIM RESULTS

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

#### 2. APPLICATION OF MERGER ACCOUNTING (continued)

For the six months ended June 30, 2016

	Originally stated RMB'000	Adjustments on merger accounting RMB'000	Elimination RMB'000	Restated RMB'000
<b>Profit (loss) for the period</b>	396,210	(13,481)	-	382,729
<b>Other comprehensive income</b> <i>An item that may be reclassified subsequently to profit or loss</i>				
Exchange difference arising on translation of foreign operations	868	1,608	-	2,476
<b>Total comprehensive income (expense) for the period</b>	397,078	(11,873)	-	385,205
Attributable to:				
Owners of the Company	385,730	(11,873)	-	373,857
Non-controlling interests	11,348	-	-	11,348
	397,078	(11,873)	-	385,205

## INTERIM RESULTS

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

#### 3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated interim financial information has been prepared on the historical cost basis at the end of each reporting period.

The accounting policies applied are consistent with those of the annual financial statements for the year ended December 31, 2016, as described therein.

#### Amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) that are mandatorily effective for the current period

The Group has applied the following amendments to HKFRSs issued by the HKICPA for the first time in the current interim period:

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRSs	Annual Improvements to HKFRSs 2014 - 2016 Cycle

The application of the amendments to HKFRSs in the current interim period has had no material impact on the Group’s condensed consolidated interim financial information.

#### 4. 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, being the Board of Directors of the Company, for the purposes of resource allocation and assessment of segment performance. As there is only one reportable segment, no segment information is presented other than entity-wide disclosures.

## INTERIM RESULTS

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

#### 4. REVENUE AND SEGMENTAL INFORMATION (continued)

##### 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,	
	2017 RMB'000 (unaudited)	2016 RMB'000 (unaudited)
Sales of sportswear and footwear products	9,459,685	8,256,273
Commissions from concessionaire sales	55,407	56,616
	<b>9,515,092</b>	<b>8,312,889</b>

#### 5. INCOME TAX EXPENSE

	For the six months ended June 30,	
	2017 RMB'000 (unaudited)	2016 RMB'000 (unaudited)
Taxation attributable to the Company and its subsidiaries:		
Current period:		
Hong Kong Profits Tax (note i)	-	-
PRC Enterprise Income Tax ("EIT") (note ii)	167,585	145,422
Overseas income tax (note iii)	-	230
	<b>167,585</b>	<b>145,652</b>
(Over) underprovision in prior periods:		
Hong Kong Profits Tax	-	-
PRC EIT	(16,907)	33,384
Overseas income tax	-	(15)
	<b>(16,907)</b>	<b>33,369</b>
Current tax charge - total	<b>150,678</b>	<b>179,021</b>
Deferred tax credit	<b>(12,393)</b>	<b>(4,930)</b>
	<b>138,285</b>	<b>174,091</b>

## INTERIM RESULTS

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

#### 5. INCOME TAX EXPENSE (continued)

notes:

##### (i) Hong Kong

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for both periods. No provision for Hong Kong Profits Tax had been made as the relevant subsidiaries had no assessable profits for both periods.

##### (ii) PRC

PRC EIT is calculated based on the statutory rate of 25% of the assessable profits 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、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) and the Bulletin of the State Administration of Taxation [2012] No. 12 issued in 2011 and 2012, during the period from January 1, 2011 to December 31, 2020, any enterprise that is located in the Western Regions of the PRC and engaged in the business activities as listed in the "Catalogue of Encouraged Industries in Western Regions" (the "New Catalogue") as its major business from which the annual revenue accounts for more than 70% of its total revenue for the financial year, is entitled to pay EIT at the rate of 15% after its application is approved by the in-charge taxation authorities. Certain subsidiaries of the Company which are located in the specified provinces of Western Regions of the PRC and engaged in the business activities under the New Catalogue. The Directors 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.

## INTERIM RESULTS

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

#### 6. PROFIT FOR THE PERIOD

	For the six months ended June 30,	
	2017 RMB'000 (unaudited)	2016 RMB'000 (unaudited and restated)
Profit for the period has been arrived at after charging (crediting):		
Total staff costs (included in selling and distribution expenses and administrative expenses)	1,013,540	819,095
Operating lease rentals and concessionaire fees in respect of shopping malls/retail stores/warehouses (included in selling and distribution expenses)	1,176,085	1,062,985
Depreciation of property, plant and equipment	143,219	96,187
Allowance (reversal of allowance) for inventories, net	87,026	(26,078)
Release of prepaid lease payments	2,112	2,022
Amortisation of intangible assets (included in selling and distribution expenses)	49,671	21,516
Net exchange gain (included in other operating income and gains (losses))	(7,314)	(5,817)
Subsidies, rebates and other income from suppliers (included in other operating income and gains (losses))	(77,171)	(59,934)
(Reversal of impairment loss) impairment loss recognised on trade receivables (included in other operating income and gains (losses))	(3,498)	6,321
Impairment loss (reversal of impairment loss) recognised on other receivables (included in other operating income and gains (losses))	2,031	(993)
Impairment losses recognised on interest in a joint venture	-	579
Loss on disposal of subsidiaries (included in other (losses) gains) (Note 13)	4,363	-
Fair value gain on consideration payable for acquisition of business (included in other (losses) gains)	-	(15,122)

## INTERIM RESULTS

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

#### 7. DIVIDENDS

	For the six months ended June 30,	
	2017 RMB'000 (unaudited)	2016 RMB'000 (unaudited)
Dividends recognised as distribution during the period:		
2016 final dividend of HK\$0.02 per share (six months ended June 30, 2016: no 2015 final dividend)	<b>92,667</b>	-

During the current interim period, the Directors declared a final dividend of HK\$0.02 per share for the year ended December 31, 2016 (six months ended June 30, 2016: no 2015 final dividend). The final dividend of approximately HK\$104,159,000 (equivalent to approximately RMB91,524,000) (six months ended June 30, 2016: nil) was paid on June 16, 2017 to the shareholders of the Company (the "Shareholders").

Subsequent to the end of the current interim period, the Directors have determined that no interim dividend will be paid in respect of the interim period (six months ended June 30, 2016: 2016 interim dividend of HK\$0.02 per share).

## INTERIM RESULTS

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

#### 8. EARNINGS PER SHARE

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

	For the six months ended June 30,	
	2017 RMB'000 (unaudited)	2016 RMB'000 (unaudited and restated)
Earnings:		
Earnings for the period attributable to owners of the Company for the purposes of basic and diluted earnings per share	<b>298,612</b>	371,438

	For the six months ended June 30,	
	2017 (unaudited)	2016 (unaudited)
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share	<b>5,207,943,670</b>	5,233,364,225
Effect of dilutive potential ordinary shares:		
- Share options	<b>7,596,554</b>	11,923,112
- Unvested awarded shares	<b>42,346,867</b>	29,823,797
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<b>5,257,887,091</b>	5,275,111,134

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 14(b)).

## INTERIM RESULTS

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

#### 9. MOVEMENT IN PROPERTY, PLANT AND EQUIPMENT

During the six months ended June 30, 2017, the Group acquired property, plant and equipment of RMB257,318,000 (six months ended June 30, 2016: RMB131,753,000, as restated).

#### 10. INTANGIBLE ASSETS

##### Change in useful lives of brand names

Effective from March 2017, the estimated useful lives of brand names were revised to better reflect the useful lives of the intangible assets as follows:

	<u>Old useful lives</u>	<u>New useful lives</u>
Brand names	Indefinite	5 years (note)

note: Amortisation for brand names is provided on a straight-line basis over their estimated useful lives.

The effects/expected effects of the above change in estimated useful lives in the current interim period/future annual reporting periods are as follows:

	<b>For the six months ended June 30,</b>	<b>For the year ending December 31,</b>				
	<b>2017 RMB'000</b>	2017 RMB'000	2018 RMB'000	2019 RMB'000	2020 RMB'000	2021 RMB'000
Increase in amortisation charge	<b>(28,122)</b>	(70,305)	(84,369)	(84,369)	(84,369)	(84,369)
Increase in release of deferred tax liabilities	<b>7,031</b>	17,576	21,092	21,092	21,092	21,092
Net decrease in profit for the period/year	<b>(21,091)</b>	(52,729)	(63,277)	(63,277)	(63,277)	(63,277)

## INTERIM RESULTS

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

#### 11. TRADE AND OTHER RECEIVABLES

	At June 30, 2017 RMB'000 (unaudited)	At December 31, 2016 RMB'000 (audited)
Trade receivables	1,638,333	1,292,686
Deposits, prepayments and other receivables	1,118,456	1,119,660
	<b>2,756,789</b>	2,412,346
Deposits, prepayments and other receivables represent:		
Rental deposits and prepaid rentals	221,249	166,995
Prepayments paid to suppliers	379,812	381,054
Value-added tax recoverable	223,212	207,947
Amounts due from related parties (note)	38,208	50,152
Other prepaid expenses	129,717	120,073
Prepaid lease payments - current	4,225	4,194
Other deposits and receivables	122,033	189,245
	<b>1,118,456</b>	1,119,660

note: The amounts represent amounts due from certain joint ventures of RMB18,201,000 (December 31, 2016: RMB30,149,000), a non-controlling interest of a subsidiary of RMB20,000,000 (December 31, 2016: RMB20,000,000) and certain entities controlled by Yue Yuen and its substantial shareholders of RMB7,000 (December 31, 2016: RMB3,000), and are unsecured and expected to be recovered within one year. Except for the amounts of (a) RMB12,329,000 (December 31, 2016: RMB24,435,000) due from a joint venture which carries variable interest rate ranging from 5% to 6.72% (December 31, 2016: ranging from 5% to 6.72%) per annum and (b) RMB20,000,000 (December 31, 2016: RMB20,000,000) due from a non-controlling interest of a subsidiary which carries fixed interest rate of 6.53% (December 31, 2016: 6.09%) per annum, the remaining balances are interest-free.

## INTERIM RESULTS

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

#### 11. TRADE AND OTHER RECEIVABLES (continued)

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

	At June 30, 2017 RMB'000 (unaudited)	At December 31, 2016 RMB'000 (audited)
0 - 30 days	1,340,836	1,028,966
31 - 90 days	238,229	207,358
Over 90 days	59,268	56,362
	<b>1,638,333</b>	1,292,686

#### 12. TRADE AND OTHER PAYABLES

	At June 30, 2017 RMB'000 (unaudited)	At December 31, 2016 RMB'000 (audited)
Trade payables	165,972	286,463
Bills payables	13,907	203,637
Receipt in advance from customers	507,690	457,015
Amounts due to related and connected parties (note)	4,020	295,900
Accrued staff costs	208,641	265,719
Sales discount and rebate payables	25,852	16,538
Other tax payables	65,199	66,967
Deposit received for sale of assets classified as held for sale	5,500	5,500
Other accruals and payables	470,774	408,639
	<b>1,467,555</b>	2,006,378

## INTERIM RESULTS

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

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

note: The amounts represent amounts due to non-controlling interests of subsidiaries of RMB2,800,000 (December 31, 2016: RMB2,800,000) and certain entities controlled by Yue Yuen and its substantial shareholders of RMB1,220,000 (December 31, 2016: RMB293,100,000), and are unsecured and repayable on demand. Except for the amount of RMB290,000,000 due to an entity controlled by Yue Yuen's substantial shareholders as at December 31, 2016, which carries fixed interest rate of 3.4% per annum and is settled in the current interim period, the remaining balances are interest-free.

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, 2017 RMB'000 (unaudited)	At December 31, 2016 RMB'000 (audited)
0 - 30 days	143,692	445,442
31 - 90 days	12,687	6,148
Over 90 days	23,500	38,510
	<b>179,879</b>	490,100

#### 13. DISPOSAL OF SUBSIDIARIES

On December 15, 2016, the Group entered into a disposal agreement with Excel Effect Investments Limited, the non-controlling interest of Profit Concept Group Limited ("Profit Concept"), pursuant to which the Group agreed to dispose of its entire interests of 51% in Profit Concept and its subsidiaries (collectively referred to as the "Disposal Group"), which are principally engaged in retailing of sportswear, for a consideration of RMB30,000,000. Therefore, the assets and liabilities attributable to the Disposal Group, which are expected to be sold within twelve months from December 31, 2016, have been classified as assets held for sale of approximately RMB289,133,000 and liabilities associated with assets classified as held for sale of approximately RMB230,309,000 as at December 31, 2016.

## INTERIM RESULTS

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

#### 13. DISPOSAL OF SUBSIDIARIES (continued)

The transaction was completed during the six months ended June 30, 2017 and the aggregate amounts of assets and liabilities attributable to the Disposal Group on the date of disposal were as follows:

	RMB'000
Net assets disposed of:	
Property, plant and equipment	4,156
Rental deposits and prepayments	9,190
Inventories	138,683
Trade and other receivables	199,161
Taxation recoverable	4,702
Bank balances and cash	9,382
Trade and other payables	(297,896)
Total net assets	67,378
Less: non-controlling interests	(33,015)
	34,363
Loss on disposal of subsidiaries:	
Consideration received	30,000
Net assets disposed of	(34,363)
Loss on disposal	(4,363)
Net cash inflow arising on disposal:	
Cash consideration received	30,000
Less: bank balances and cash disposed of	(9,382)
	20,618

During the six months ended June 30, 2017, the Disposal Group did not contribute significantly to the results and cash flows of the Group prior to the disposal.

## INTERIM RESULTS

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

#### 14. SHARE OPTION SCHEME AND SHARE AWARD SCHEME

##### (a) Share Option Scheme

The existing share option scheme was adopted by the Shareholders 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:

	2017		2016	
	Weighted average exercise price HK\$	Number of share options	Weighted average exercise price HK\$	Number of share options
As at January 1,	1.63	54,549,190	1.39	54,612,000
Exercised	1.43	(200,000)	1.29	(6,226,000)
Forfeited	-	-	1.62	(100,000)
As at June 30,	1.63	54,349,190	1.40	48,286,000
Exercisable at the end of the reporting period	1.40	42,686,000	1.40	48,286,000

Share options outstanding at June 30, 2017 and December 31, 2016 have the following expiry dates and exercise prices:

Year of expiry	Exercise price HK\$	Number of share options	
		At June 30, 2017	At December 31, 2016
2018	1.620	18,747,000	18,847,000
2019	1.230	23,564,000	23,664,000
2019	2.494	1,166,320	1,166,320
2020	1.050	375,000	375,000
2020	2.494	1,166,320	1,166,320
2021	2.494	1,166,320	1,166,320
2022	2.494	2,332,640	2,332,640
2023	2.494	5,831,590	5,831,590
		54,349,190	54,549,190

## INTERIM RESULTS

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

#### 14. SHARE OPTION SCHEME AND SHARE AWARD SCHEME (continued)

##### (a) Share Option Scheme (continued)

In respect of the share options exercised during the six months ended June 30, 2017, the weighted average share price at the dates of exercise is HK\$2.13 (six months ended June 30, 2016: HK\$2.04) per share.

During the six months ended June 30, 2017, the Group recognised a net expense of RMB1,695,000 (six months ended June 30, 2016: a net income of RMB75,000) as equity-settled share-based payments in the condensed consolidated income statement under the share option scheme with reference to the share options' respective vesting periods and the share options forfeited prior to their vesting dates after recognising share option expenses.

##### (b) Share Award Scheme

The share award scheme was approved and adopted by the Board on May 9, 2014 and amended on November 11, 2016. Movements in the number of share awards outstanding are as follows:

	Number of share awards	
	2017	2016
As at January 1,	45,129,810	27,738,000
Granted	6,026,000	6,530,000
Forfeited	(7,432,000)	(2,675,000)
As at June 30,	43,723,810	31,593,000

During the six months ended June 30, 2017, the Board granted on March 25, 2017 (six months ended June 30, 2016: March 24, 2016 and May 13, 2016, respectively) an aggregate of 6,026,000 (six months ended June 30, 2016: 5,130,000 and 1,400,000, respectively) awarded shares to certain employees of the Group and a Director pursuant to the share award scheme.

## INTERIM RESULTS

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

#### 14. SHARE OPTION SCHEME AND SHARE AWARD SCHEME (continued)

##### (b) Share Award Scheme (continued)

During the six months ended June 30, 2017, the total fair values of the share awards as at the respective dates of grant, determined by APAC Asset Valuation and Consulting Limited using the Black-Scholes Option Pricing Model, amounted to HK\$7,234,000 (approximately RMB6,425,000) (six months ended June 30, 2016: HK\$7,398,000 (approximately RMB6,244,000)). The key inputs into the Black-Scholes Option Pricing Model are as follows:

Date of grant	March 25, 2017	May 13, 2016	March 24, 2016
Closing share price at the date of grant	HK\$1.87	HK\$2.07	HK\$1.61
Annual risk free rate	0.620% - 1.140%	0.600%	0.845%
Expected volatility	48% - 59%	57%	54%
Vesting period	1 - 3 years	2.3 years	3 years
Expected dividend yield	2.0%	Nil	Nil

The Black-Scholes Option Pricing Model has been used to estimate the fair value of the share awards. The variables and assumptions used in computing the fair value of the share awards are based on the Directors' best estimate. The value of a share award varies with different variables of certain subjective assumptions.

The closing price of the Company's shares immediately before the grant of the share awards on March 25, 2017 was HK\$1.87 (March 24, 2016 and May 13, 2016 were HK\$1.67 and HK\$2.00, respectively) per share.

During the six months ended June 30, 2017, the Group recognised a net expense of RMB4,388,000 (six months ended June 30, 2016: RMB2,147,000) as equity-settled share-based payments in the condensed consolidated income statement under the share award scheme with reference to the share awards' respective vesting period and the share awards forfeited prior to their vesting dates after recognising share award expenses.

As at June 30, 2017, a total of 130,000,000 ordinary shares (December 31, 2016: 130,000,000 ordinary shares) of the Company were held by the trustee of the share award scheme of the Company.

## INTERIM RESULTS

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

#### 15. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

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

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 during the six months ended June 30, 2016 and 2017.

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW

#### Business Model and Environment

While the Group has been maintaining its position as the leading distributor of footwear and apparel for international brands, with strong and established presence across the People's Republic of China (the "PRC"), the Group has also been starting to improve and enhance its offline and online operations by converting its current operations to being more adaptive to the PRC's new retailing environment, which are more experiencing and storytelling oriented, bigger format stores expansions and more frequent seasonal promotion activities by events and products.

With the PRC government's strong promotions and policy supports to sports industry in conjunction with its GDP growth and emphasis on quality life, it is the Group's vision that "make sports your life", as the guidance to business developments, could help the Group grow businesses in the PRC more in line with the PRC's sports retailing environments and seize the opportunities of growing businesses both in products selling as well as services offerings.

The solid first step of "make sports your life" is from the fundamental of enhancing current scaled offline operations by the introductions of advanced electronic daily operation supervisory mechanism with timely and precise operating indicators, as well as dedicated supervisory teams to different business regions and brand customers. With solid fundamental offline operation growth, sports services focusing on establishing 365-day communications with sports consumers could be built up via sports services incorporated in the Group's offline stores and online platform, which are the stores franchised by brands and the Group's YY Sports. Certain pilot projects for the enhancements of offline and online operations have been launched in second quarter of this year.

As at June 30, 2017, the Group's nationwide retail network consisted of 5,464 directly operated stores and 3,036 sub-distributor stores.

The Group continued to pursue opportunities with international leisure and fashionable brands. Typically, the brand holders grant the Group rights to develop and market their branded products in designated territories for specified periods of time. The Group currently cooperates with Rockport, GEOX, Carter's, Levi's footwear and PONY, etc.

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW (continued)

#### Business Model and Environment (continued)

The operating environment was mixed during the first half of 2017. The PRC's GDP grew over 6.5%, while retail spending grew by double digits during the period under review, especially during the second quarter of 2017. The uptick in economic growth and retail spending, together with rising consumer confidence, supported the Group's retail operations. However, the high growth of sports spending was consumed by more diverse channels and sophisticated manners, which were challenges to the Group's operations if only traditional marketing and sales approaches applied.

The sports retailing environment in the PRC continued to be highly competitive and fragmented, with international brands competing against upcoming domestic brands. Consumers are seeking unique shopping experiences and opportunities to rigorously try out each product's features and comforts in-store. Thus, in order to manage this rapid shift in consumer appetite and preferences, continuous investment is required to develop and upgrade existing branding, store formats and digital channels, which help driving in-store traffic and reinforcing the consumers' experiences. Rising wages, rents and other cost pressures also continued to have a significant impact on the retail business.

### ANALYSIS OF PERFORMANCE

#### Financial Review

For the first half of 2017, the Group recorded revenue of RMB9,515.1 million, representing an increase of 14.5% compared with the corresponding period of last year. Gross profit was RMB3,292.0 million, an increase of 11.3% when compared to the first half of last year. Profit attributable to owners of the Company for the first half of 2017 was RMB298.6 million, a decrease of 19.6% compared with the first half of fiscal year 2016.

#### Revenue

Total revenue for the Group grew 14.5% to RMB9,515.1 million for the first six months, as compared with the corresponding period of last year. The growth was attributed to the growth in overall store sales, contributions from newly opened stores and new online channels.

## MANAGEMENT DISCUSSION AND ANALYSIS

### ANALYSIS OF PERFORMANCE (continued)

#### Gross Profit

Gross profit for the Group amounted to RMB3,292.0 million, with a gross profit margin of 34.6%. The gross profit grew, however, the gross profit margin decreased compared with the corresponding period of last year due to the increase in allowance for inventories as the clearance of age-long inventories was slower than expected.

#### Selling and Distribution Expenses and Administrative Expenses

For the first six months, the selling and distribution expenses and administrative expenses of the Group were in aggregate of RMB2,920.4 million, representing 30.7% of total revenue with an increase of 17.0%, compared with the same period last year. To align with brand customers' growth strategy, the management team continued to invest in store expansion and optimisation, store renovations and upgrades, as well as the training of sales staff. These activities led to corresponding increases in staff costs, rental expenses and concession fees.

#### Operating Profit

The Group's operating profit for the period was RMB505.8 million, while the operating profit margin was 5.3%. The comparative figures for the same period of the last fiscal year were RMB570.6 million and 6.9%, respectively.

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

The Group incurred various (losses) gains from a variety of non-operating activities during the period, amounting to a net loss of RMB4.4 million, which was mainly attributed to the loss on disposal of subsidiaries.

#### Profit for the Period

Due to the aforementioned reasons, the Group recorded a net profit of RMB311.5 million for the period with a decrease of RMB71.2 million as compared to the first half of last year.

## MANAGEMENT DISCUSSION AND ANALYSIS

### ANALYSIS OF PERFORMANCE (continued)

#### Working Capital Efficiency

The average inventories turnover period for the period was 131 days (2016: 145 days). The decrease in the inventories turnover period was due to more frequent promotion activities and allocation of product portfolio. The Group continues to explore different strategies for managing inventories so as to optimise working capital levels. The average trade receivables turnover period was 28 days (2016: 28 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 10 days (2016: 22 days).

#### Liquidity and Financial Resources

As at June 30, 2017, the Group had cash and cash equivalents of RMB448.9 million (December 31, 2016: RMB482.6 million) and working capital (current assets minus current liabilities) of RMB3,976.9 million (December 31, 2016: RMB3,858.7 million). Total bank borrowings were RMB2,171.6 million (December 31, 2016: RMB1,375.8 million) and were repayable within one year. Bank borrowings were mainly denominated in Renminbi. The Group's current ratio was 2.06 times (December 31, 2016: 2.03 times), while the Group's gearing ratio represented total interest bearing loans (including amount due to a connected party) as a percentage of total equity was 34.3% (December 31, 2016: 27.2%).

During the period, net cash used in operating activities was RMB111.4 million. The Group believes its liquidity requirements will be satisfied with the combination of capital generated from operating activities and bank borrowings in the future. Net cash used in investing activities was RMB297.4 million. Net cash generated from financing activities was RMB366.9 million. During the period, the Group raised and repaid bank borrowings of RMB2,714.7 million and RMB1,914.5 million respectively.

#### Capital Expenditure

The Group's capital expenditure primarily comprised of payments for purchase of furniture, fixtures and equipment and leasehold improvements. During the period under review, the total capital expenditure was RMB277.0 million (2016: RMB143.7 million) and mainly used for mega stores expansions and deposit paid for acquisition of property, plant and equipment. As at June 30, 2017, the Group had no material capital commitments and contingent liabilities.

## MANAGEMENT DISCUSSION AND ANALYSIS

### ANALYSIS OF PERFORMANCE (continued)

#### Foreign Exchange

The Group conducted its business primarily in the PRC, and majority of its transactions are denominated in RMB. As at June 30, 2017, the Group had no significant hedging instruments for managing foreign exchange exposure. As the exchange rate of RMB against foreign currencies may fluctuate, the Group may enter into forward contracts, currency swaps or options to hedge against currency risks arising from foreign currency transactions when necessary.

The Group has a dedicated treasury division and internal treasury policies and approval guidelines to manage and control the Group's exposure to structured deposit investments. The use of derivatives and approval procedures were in accordance to our internal policies and guidelines during the period under review.

### PROSPECTS AND FUTURE DEVELOPMENTS

The Group's management is confident about the mid-to-long-term prospect of health and leisure retail industry in the Greater China region, as the PRC policy makers steer the economy away from manufacturing and exports towards services and domestic consumption. As consumers become more health conscious, they are likely to spend more on personal health and well-being.

As global athletic, performance and leisure brands allocate more resources to capture market share in the PRC, the Group will further develop its omni-channels and capabilities to guide these brands in handling the complexity, variation and diversity of sports retailing across the PRC marketplace.

The Group cooperates closely with global brands to implement strategic marketing plans, focusing on the Greater China markets. This includes new initiatives and promotions of its directly operated mono-brand and multi-brand stores, sport towns, as well as online sports services platform. These initiatives and promotions will enhance the customers' experience and deliver stronger store efficiency.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **PROSPECTS AND FUTURE DEVELOPMENTS (continued)**

By further integrating its sports events marketing and sports facilities management under one platform, and combining this with the right selection of multi-brand product portfolios, the Group aims to enhance the overall consumers' experience and generate repeated sales of products as well as services. For the second half of the fiscal year, the sports services division will focus on managing a series of large-scale sporting events by the categories of running, marathon, basketball and baseball across the Greater China region.

The development of e-commerce channel and digital adoption is one of the Group's core development strategies to drive sales and enhance channel efficiency. The Group will continue to optimise its logistics network, improve its process, operational system and sports services coverage across the PRC. Such efforts are expected to further enhance the Group's overall distribution efficiency and profitability, creating synergies and maximising benefits for our customers, partners, employees and shareholders.

### **INTERIM DIVIDEND**

The Board has resolved not to declare any interim dividend for the six months ended June 30, 2017 (six months ended June 30, 2016: 2016 interim dividend of HK\$0.02 per share).

### **HUMAN RESOURCES**

As at June 30, 2017, the Group had approximately 30,000 employees in total. The Group provides competitive remuneration packages that are determined with reference to prevailing salary levels in the market and individual performance. It offers awarded shares and/or share options to eligible employees in order to provide them with incentives and to recognise 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 for 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, 2017, the interests or short positions of the Company's Directors and chief executives in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) (a) required to be notified to the Company and The Stock Exchange of Hong Kong Limited (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 positions of the SFO); or (b) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO; or (c) 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 Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

#### Long Position in shares

##### (a) The Company

Ordinary shares of HK\$0.01 each of the Company (the "Shares")

Name of Directors/ chief executive	Capacity	Number of Shares				Total	Percentage of the issued Shares
		Personal interest	Family interest	Corporate interest	Other interest		
Tsai Patty, Pei Chun	Beneficial owner	19,523,000	-	-	-	19,523,000	0.37%
Lee, Shao-Wu	Beneficial owner	1,000,000 <sup>1</sup>	-	-	-	1,000,000	0.02%

*note:*

- <sup>1</sup> 1,000,000 Shares are awarded shares granted under the share award scheme of the Company, which are subject to certain vesting conditions, remained unvested. Details of the awarded shares are stipulated in the section "Share Award Scheme" in this interim report.

## OTHER INFORMATION

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

#### Long Position in shares (continued)

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

Ordinary shares of HK\$0.25 each of Yue Yuen

Name of Directors/ chief executive	Capacity	Number of shares				Total	Percentage of the issued shares of Yue Yuen
		Personal interest	Family interest	Corporate interest	Other interest		
Lee, Shao-Wu	Beneficial owner	78,000	-	-	-	78,000	0.00%

Save as disclosed above, as at June 30, 2017, none of the Directors nor chief executives of the Company had 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 (a) 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 (b) were recorded in the register required to be kept by the Company under Section 352 of the SFO; or (c) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

## 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.

The share option scheme of the Company was adopted by the shareholders of the Company (the "Shareholders") on May 14, 2008 and amended on March 7, 2012 (the "Share Option Scheme"). 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.

Pursuant to the terms of the Share Option Scheme, the total number of Shares which may be issued upon exercise of all share options to be granted shall not exceed 10% of the total number of issued Shares as at the date on which dealings in the Shares first commence on the Stock Exchange (i.e. June 6, 2008) (being 355,000,000 Shares).

As at the date of this report, the total number of Shares available for issue under the Share Option Scheme is 282,867,810 Shares, representing approximately 5.30% of the total number of issued Shares. As at June 30, 2017, an aggregate of 54,349,190 Shares are issuable for share options granted under the Share Option Scheme, representing approximately 1.02% of the total number of issued Shares.

For the share options in respect of 11,663,190 Shares granted on November 14, 2016, upon the terms of the operation and share incentive agreement governing the grant, the total amount payable on acceptance of the options was US\$303,950.77 and the payment must be made within 5 days from the date on which the offer letters were delivered to the relevant grantees. Save for the aforesaid, under the rules of the Share Option Scheme, the amount payable on acceptance of an offer of HK\$1.00 and the payment must be made within 28 days from the date on which the offer letter is delivered to the participant.

## OTHER INFORMATION

### SHARE OPTION SCHEME (continued)

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

Date of grant	Exercise price HK\$	Vesting period	Exercisable period	Number of underlying shares comprised in the share options				
				Balance as at January 1, 2017	Granted during the period	Exercised during the period	Lapsed/ cancelled during the period	Balance as at June 30, 2017
<b>Employees/Consultants</b>								
21.01.2010	1.620	21.01.2010-20.01.2011	21.01.2011-20.01.2018	1,668,450	-	-	-	1,668,450
		21.01.2010-20.01.2012	21.01.2012-20.01.2018	1,673,450	-	-	-	1,673,450
		21.01.2010-20.01.2013	21.01.2013-20.01.2018	3,401,900	-	-	-	3,401,900
		21.01.2010-20.01.2014	21.01.2014-20.01.2018	4,719,200	-	-	-	4,719,200
20.01.2011	1.230	20.01.2011-19.01.2012	20.01.2012-19.01.2019	2,525,000	-	(25,000)	-	2,500,000
		20.01.2011-19.01.2013	20.01.2013-19.01.2019	2,875,000	-	(75,000)	-	2,800,000
		20.01.2011-19.01.2014	20.01.2014-19.01.2019	3,264,000	-	-	-	3,264,000
		20.01.2011-19.01.2015	20.01.2015-19.01.2019	3,375,000	-	-	-	3,375,000
14.11.2016	2.494	14.11.2016-31.08.2017	01.09.2017-01.09.2019	1,166,320	-	-	-	1,166,320
		14.11.2016-31.08.2018	01.09.2018-01.09.2020	1,166,320	-	-	-	1,166,320
		14.11.2016-31.08.2019	01.09.2019-01.09.2021	1,166,320	-	-	-	1,166,320
		14.11.2016-31.08.2020	01.09.2020-01.09.2022	2,332,640	-	-	-	2,332,640
		14.11.2016-31.08.2021	01.09.2021-01.09.2023	5,831,590	-	-	-	5,831,590
Sub-total				35,165,190	-	(100,000)	-	35,065,190

## OTHER INFORMATION

### SHARE OPTION SCHEME (continued)

Date of grant	Exercise price HK\$	Vesting period	Exercisable period	Number of underlying shares comprised in the share options				
				Balance as at January 1, 2017	Granted during the period	Exercised during the period	Lapsed/ cancelled during the period	Balance as at June 30, 2017
<b>Former Employees</b>								
21.01.2010	1.620	21.01.2010-20.01.2011	21.01.2011-20.01.2018	1,870,000	-	(16,000)	-	1,854,000
		21.01.2010-20.01.2012	21.01.2012-20.01.2018	1,899,000	-	(45,000)	-	1,854,000
		21.01.2010-20.01.2013	21.01.2013-20.01.2018	2,763,000	-	(39,000)	-	2,724,000
		21.01.2010-20.01.2014	21.01.2014-20.01.2018	852,000	-	-	-	852,000
20.01.2011	1.230	20.01.2011-19.01.2012	20.01.2012-19.01.2019	6,987,500	-	-	-	6,987,500
		20.01.2011-19.01.2013	20.01.2013-19.01.2019	3,337,500	-	-	-	3,337,500
		20.01.2011-19.01.2014	20.01.2014-19.01.2019	1,000,000	-	-	-	1,000,000
		20.01.2011-19.01.2015	20.01.2015-19.01.2019	300,000	-	-	-	300,000
07.03.2012	1.050	07.03.2012-06.03.2013	07.03.2013-06.03.2020	375,000	-	-	-	375,000
		07.03.2012-06.03.2014	07.03.2014-06.03.2020	-	-	-	-	-
		07.03.2012-06.03.2015	07.03.2015-06.03.2020	-	-	-	-	-
		07.03.2012-06.03.2016	07.03.2016-06.03.2020	-	-	-	-	-
Sub-total				19,384,000	-	(100,000)	-	19,284,000
Grand total				54,549,190	-	(200,000)	-	54,349,190

The weighted average closing price of the Shares immediately before the dates on which the share options were exercised during the period is HK\$2.22 per Share.

Save as disclosed above, no share options had been granted, exercised, lapsed or cancelled under the Share Option Scheme during the period.

## OTHER INFORMATION

### SHARE AWARD SCHEME

The share award scheme of the Company was adopted on May 9, 2014 and duly amended on November 11, 2016 (the "Share Award Scheme") for recognising the contributions by certain persons, including Directors 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 of the Company and approved by the Board.

The total number of shares to be awarded under the Share Award Scheme shall not exceed 4% of the issued Shares 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 Shares 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 before vesting 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).

## OTHER INFORMATION

### SHARE AWARD SCHEME (continued)

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

	Date of grant	Vesting period	Number of share awards				
			Balance as at January 1, 2017	Granted during the period	Vested during the period	Lapsed/ cancelled during the period	Balance as at June 30, 2017
<b>Director/former Director</b>							
Lee, Shao-Wu	25.03.2017	25.03.2017-24.03.2018	-	300,000	-	-	300,000
	25.03.2017	25.03.2017-24.03.2019	-	300,000	-	-	300,000
	25.03.2017	25.03.2017-24.03.2020	-	400,000	-	-	400,000
Kwan, Heh-Der <sup>1</sup>	01.09.2014	01.09.2014-31.08.2017	1,200,000	-	-	(1,200,000)	-
	13.05.2016	13.05.2016-30.08.2018	1,400,000	-	-	(1,400,000)	-
Sub-total			2,600,000	1,000,000	-	(2,600,000)	1,000,000
<b>Employees</b>							
	01.09.2014	01.09.2014-31.08.2017	7,100,000	-	-	(2,400,000)	4,700,000
	21.03.2015	21.03.2015-20.03.2018	7,783,000	-	-	(1,025,000)	6,758,000
	14.08.2015	14.08.2015-13.08.2018	8,330,000	-	-	(60,000)	8,270,000
	24.03.2016	24.03.2016-23.03.2019	4,920,000	-	-	(1,200,000)	3,720,000
	13.08.2016	13.08.2016-12.08.2019	5,460,000	-	-	-	5,460,000
	12.11.2016	12.11.2016-30.08.2019	600,000	-	-	-	600,000
	14.11.2016	14.11.2016-31.08.2017	833,680	-	-	-	833,680
	14.11.2016	14.11.2016-31.08.2018	833,680	-	-	-	833,680
	14.11.2016	14.11.2016-31.08.2019	833,680	-	-	-	833,680
	14.11.2016	14.11.2016-31.08.2020	1,667,360	-	-	-	1,667,360
	14.11.2016	14.11.2016-31.08.2021	4,168,410	-	-	-	4,168,410
	25.03.2017	25.03.2017-24.03.2020	-	5,026,000	-	(147,000)	4,879,000
Sub-total			42,529,810	5,026,000	-	(4,832,000)	42,723,810
Grand total			45,129,810	6,026,000	-	(7,432,000)	43,723,810

## OTHER INFORMATION

### SHARE AWARD SCHEME (continued)

*note:*

- <sup>1</sup> Mr. Kwan, Heh-Der resigned as an executive Director and the chief executive officer of the Company (the "CEO") on January 6, 2017 and the share awards granted to him lapsed on that date.

The closing price of the Shares immediately before the grant of awarded shares on March 25, 2017 is HK\$1.87 per Share.

### 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, being the Company's subsidiary or holding company.

## OTHER INFORMATION

### SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at June 30, 2017, the register of interests in Shares and short positions of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that other than the interests disclosed above in respect of Directors and chief executives of the Company, the following Shareholders had notified the Company of relevant interests in the issued Shares:

Name of Shareholders	notes	Capacity/ Nature of interest	Number of Shares held	Percentage of the issued Shares
Major Focus Management Limited ("Major Focus")	(a)	Beneficial owner	3,311,090,560	62.03%
Yue Yuen	(a), (b)	Interest of a controlled corporation/ Beneficial owner	3,311,090,560	62.03%
Wealthplus Holdings Limited ("Wealthplus")	(b)	Interest of a controlled corporation	3,311,090,560	62.03%
Pou Chen Corporation ("PCC")	(b)	Interest of a controlled corporation	3,311,090,560	62.03%

*notes:*

All the Shares held are in long positions.

- (a) 3,311,090,560 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 voting shares of Yue Yuen.

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

## OTHER INFORMATION

### SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES (continued)

Save as disclosed above, as at June 30, 2017, the Directors were not aware of any other person (other than the Directors or chief executives of the Company) who had an interest or short position in the Shares or underlying Shares 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.

### PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended June 30, 2017, the Company did not redeem any of its Shares listed and traded on the Stock Exchange nor did the Company or any of its subsidiaries purchase or sell such Shares (six months ended June 30, 2016: 53,186,000 Shares).

### UPDATE ON DIRECTORS' INFORMATION

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes in information of the Directors are set out below:

- (a) On March 24, 2017, Mr. Lee, Shao-Wu ceased to be the Head of Strategic Investment of PCC.
- (b) On May 29, 2017, Ms. Tsai Patty, Pei Chun entered into a supplemental letter of appointment with the Company for renewal of her term of appointment for further three years commencing from June 6, 2017 to June 5, 2020, subject to retirement by rotation and re-election at annual general meetings pursuant to the bye-laws of the Company (the "Bye-Laws").
- (c) On May 29, 2017, Mr. Chen, Huan-Chung entered into a supplemental letter of appointment with the Company for renewal of his term of appointment for further three years commencing from June 6, 2017 to June 5, 2020, subject to retirement by rotation and re-election at annual general meetings pursuant to the Bye-Laws.

## OTHER INFORMATION

### UPDATE ON DIRECTORS' INFORMATION (continued)

- (d) On June 20, 2017, Mr. Hsieh, Wuei-Jung was appointed as the chairman of the audit committee of Anpec Electronics Corporation, the shares of which are traded on Taipei Exchange.

### REVIEW OF ACCOUNTS

The audit committee of the Company has reviewed with management and the external auditor of the Company the Group's condensed consolidated interim financial information for the six months ended June 30, 2017, the interim report, the accounting principles and practices adopted by the Group and has discussed risk management, internal controls, and financial reporting matters.

Deloitte Touche Tohmatsu, certified public accountants, the external auditor of the Company has reviewed the condensed consolidated interim financial information for the six months ended June 30, 2017 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 Hong Kong Institute of Certified Public Accountants.

### CORPORATE GOVERNANCE

Save as disclosed below, the Company has applied the principles of all code provisions of and has complied with all code provisions contained in the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules throughout the six months ended June 30, 2017.

A deviation from code provision A.2.1 of the CG Code — there was no segregation between the role of the chairman of the Company (the "Chairman") and the CEO during the period from January 6, 2017 up to February 5, 2017. Upon the resignation of the former CEO, Mr. Kwan, Heh-Der, on January 6, 2017, the role and responsibilities of the CEO were temporarily assumed by the Chairman until Mr. Lee, Shao-Wu, the existing CEO, was appointed as the acting CEO on February 6, 2017. The Company believes that it was only a temporary measure while the Company was actively searching for a replacement to fill in the position. As such, the Board does not consider that no segregation of the roles for such a short period had impaired the balance of power and authority between the Board and the management of the Company given there is a division of responsibilities for each of the individual business operation segments of the Group.

## **OTHER INFORMATION**

### **CORPORATE GOVERNANCE (continued)**

A deviation from code provision F.1.1 of the CG Code — there was no company secretary for the Company (the “Company Secretary”) for the period from January 19, 2017 up to May 11, 2017 upon the resignation of the former Company Secretary, Ms. Chong Yim Kuen, on January 19, 2017. The day-to-day tasks of the Company Secretary were carried out by personnel at the Company who possess relevant experience to deal with such tasks. Eventually, Mr. Fan Kam Wing was appointed as the new Company Secretary on May 12, 2017.

### **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND EMPLOYEES**

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. Following specific enquiry by the Company to all Directors, each of them has confirmed that he/she has complied with the required standards set out in the Model Code throughout the six months ended June 30, 2017.

The Company has also established and adopted internal guidelines for securities transactions by relevant employees (the “Employees Guidelines”). The Employees Guidelines are updated from time to time according to the Model Code. Specified employees who are likely to be in possession of unpublished inside information relating to the Company and its activities must comply with the Employees Guidelines.

### **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 of the Group for their commitment and dedicated services throughout the period.

## OTHER INFORMATION

### DIRECTORS

As at the date of this report, the Board comprises:

#### Executive Directors

Mr. Wu, Pan-Tsu (Chairman) and Mr. Lee, Shao-Wu (CEO)

#### Non-executive Directors

Ms. Tsai Patty, Pei Chun and Mr. Li I-nan

#### Independent Non-executive Directors

Mr. Chen, Huan-Chung, Mr. Hsieh, Wuei-Jung and Mr. Shan Xue

By Order of the Board

**Wu, Pan-Tsu**

*Chairman*

Hong Kong, August 11, 2017

Website: [www.pousheng.com](http://www.pousheng.com)