ACTIVE GROUP HOLDINGS LIMITED
動感集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1096)

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2014

HIGHLIGHTS OF THE ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2014

- Turnover decreased by 26.3% from RMB792.6 million for the year ended 31 December 2013 to RMB584.3 million for the year ended 31 December 2014.
- Gross profit decreased by 64.0% from RMB174.4 million for the year ended 31 December 2013 to RMB62.9 million for the year ended 31 December 2014, while gross profit margin decreased from 22.0% to 10.8%.
- Loss attributable to equity shareholders of the Company amounted to RMB130.3 million for the year ended 31 December 2014, as compared to a profit of RMB72.0 million for the corresponding period of 2013.
- Basic earnings per Share decreased from RMB0.06 per Share for the year ended 31 December 2013, to loss per Share of RMB0.11 for the year ended 31 December 2014.
- The Board does not recommend the payment of a final dividend for the year ended 31 December 2014.

The Board would like to announce the annual results of the Group for the year ended 31 December 2014 together with the comparative figures for 2013.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2014

(Expressed in Renminbi)

	Note	2014 RMB'000	2013 RMB'000
Turnover	3(a)	**584,270**	792,572
Cost of sales		**(521,412)**	(618,192)
Gross profit		**62,858**	174,380
Other revenue	4(a)	**2,852**	3,416
Other net income	4(b)	**1,739**	429
Selling and distribution expenses		**(22,925)**	(26,755)
Administrative expenses		**(163,145)**	(38,206)
(Loss)/profit from operations		**(118,621)**	113,264
Finance costs	5(a)	**(17,167)**	(10,554)
(Loss)/profit before taxation	5	**(135,788)**	102,710
Income tax credit/(expense)	6	**5,447**	(30,734)
(Loss)/profit for the year		**(130,341)**	71,976
(Loss)/earnings per share			
Basic and diluted (RMB)	7	**(0.11)**	0.06

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2014

(Expressed in Renminbi)

	2014	2013
	RMB'000	*RMB'000*
(Loss)/profit for the year	**(130,341)**	71,976
Other comprehensive income for the year that may be reclassified subsequently to profit or loss		
Exchange differences on translation of financial statements of subsidiaries outside the PRC, net of nil tax	**(202)**	194
Total comprehensive income for the year	**(130,543)**	72,170

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2014

(Expressed in Renminbi)

	Note	2014 RMB'000	2013 RMB'000
Non-current assets			
Property, plant and equipment		**120,471**	174,115
Intangible assets		**3,532**	4,266
Lease prepayments		**5,281**	4,274
Non-current prepayments for acquisitions of property, plant and equipment		**71,924**	13,930
Deferred tax assets		**13,931**	4,851
		215,139	201,436
Current assets			
Inventories	*8*	**107,195**	113,908
Current portion of lease prepayments		**129**	104
Trade and other receivables	*9*	**1,039,962**	902,437
Current tax recoverable		**–**	139
Pledged deposits		**117,040**	108,642
Cash and cash equivalents		**104,047**	12,695
		1,368,373	1,137,925
Current liabilities			
Trade and other payables	*10*	**344,780**	433,634
Bank loans		**219,239**	209,011
Current tax payable		**25,409**	28,389
		589,428	671,034
Net current assets		**778,945**	466,891
Total assets less current liabilities		**994,084**	668,327
Non-current liabilities			
Debentures		**373,214**	–
Receipt in advance		**2,445**	–
Deferred tax liabilities		**3,997**	3,997
		379,656	3,997
NET ASSETS		**614,428**	664,330
CAPITAL AND RESERVES			
Capital		**104,381**	97,935
Reserves		**510,047**	566,395
TOTAL EQUITY		**614,428**	664,330

1 BASIS OF PREPARATION AND PRESENTATION

The annual results set out in this announcement do not constitute the Group's consolidated financial statements for the year ended 31 December 2014 but are extracted from those financial statements.

The consolidated financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual IFRSs, International Accounting Standards ("IASs") and Interpretations issued by the International Accounting Standards Board ("IASB") and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 2 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

The consolidated financial statements for the year ended 31 December 2014 comprise the Company and its subsidiaries.

The Group recorded a net loss of RMB130,341,000 and a net operating cash outflow of RMB204,815,000 for the year ended 31 December 2014. Furthermore, bank loans amounted to RMB219,239,000 was due for renewal or repayment within the next twelve months and the covenants in relation to certain bank loan of the Group totalling RMB47,000,000 as at 31 December 2014 were breached. The Group only had cash and cash equivalents of RMB104,047,000 as at 31 December 2014. Although the Group was able to raise proceeds from issuing debentures with an aggregate principal of HKD115 million subsequently in January 2015, it will be unable to fund the Group's operating activities and repay the bank loans in full when they fall due unless it is able to generate sufficient net cash inflows from its operations and/or extend its existing borrowings upon their maturities.

As part of the going concern assessment, the directors of the Company have reviewed the Group's cash flow projections prepared by management, which cover a period of twelve months from 31 December 2014. They are of the opinion that material uncertainties exist regarding:

(i) whether the Group is able to improve its business performance and generate net cash inflows from its operations; and

(ii) whether the bankers will maintain their continuing support and therefore will agree to extend the existing borrowings despite of the breach of the covenant mentioned above. This factor is critical to the achievability of the Group's cash flow projections.

These facts and circumstances indicate the existence of material uncertainties which may cast significant doubt on the Group's ability to continue as a going concern and, therefore, it may be unable to realise its assets and discharge its liabilities in the normal course of business.

Based on the directors' intentions and the cash flow projections mentioned above, the directors are of the opinion that it is appropriate to prepare the Group's financial statements for the year ended 31 December 2014 on a going concern basis. Should the Group not be able to continue to operate as a going concern, adjustments would have to be made to write down the value of assets to their recoverable amounts, to provide for further liabilities which might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. The effect of these potential adjustments has not been reflected in these financial statements.

The Company and other investment holding subsidiaries incorporated in the Cayman Island, The British Virgin Islands (the "BVI") and Hong Kong have their functional currency in Hong Kong dollar ("HKD") or United States dollar ("USD") and subsidiaries established in the People's Republic of China (the "PRC") have their functional currency in Renminbi ("RMB"). As the Group mainly operates in the PRC, RMB is used as the presentation currency of the Group's financial statements. All financial information presented is rounded to the nearest thousand except otherwise stated. The measurement basis used in the preparation of the financial statements is the historical cost basis.

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses.

2 CHANGES IN ACCOUNTING POLICIES

The IASB has issued the following amendments to IFRSs and one new interpretation that are first effective for the current accounting period of the Group and the Company.

- Amendments to IFRS 10, IFRS 12 and IAS 27, *Investment entities*
- Amendments to IAS 32, *Offsetting financial assets and financial liabilities*
- Amendments to IAS 36, *Recoverable amount disclosures for non-financial assets*
- Amendments to IAS 39, *Novation of derivatives and continuation of hedge accounting*
- IFRIC 21, *Levies*

The Group has not applied any new standards or interpretation that is not yet effective for the current accounting period. Impacts of the adoption of the new or amended IFRSs are discussed below:

Amendments to IFRS 10, IFRS 12 and IAS 27, *Investment entities*
The amendments provide consolidation relief to those parents which qualify to be an investment entity as defined in the amended IFRS 10. Investment entities are required to measure their subsidiaries at fair value through profit or loss. These amendments do not have an impact on these financial statements as the Company does not qualify to be an investment entity.

Amendments to IAS 32, *Offsetting financial assets and financial liabilities*
The amendments to IAS 32 clarify the offsetting criteria in IAS 32. The amendments do not have an impact on these financial statements as they are consistent with the policies already adopted by the Group.

Amendments to IAS 36, *Recoverable amount disclosures for non-financial assets*
The amendments to IAS 36 modify the disclosure requirements for impaired non-financial assets. Among them, the amendments expand the disclosures required for an impaired asset or CGU whose recoverable amount is based on fair value less costs of disposal.

The Group initially adopts the amendments in current accounting period.

Amendments to IAS39, *Novation of derivatives and continuation of hedge accounting*
The amendments to IAS 39 provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. The amendments do not have an impact on these financial statements as the Group does not have any derivatives designated as a hedging instrument.

IFRIC 21, *Levies*
The Interpretation provides guidance on when a liability to pay a levy imposed by a government should be recognised. The amendments do not have an impact on these financial statements as the guidance is consistent with the Group's existing accounting policies.

3 TURNOVER AND SEGMENT REPORTING

(a) Turnover

The principal activities of the Group are manufacturing and sale of casual footwear, apparel and related accessories in the PRC.

Turnover represents the sales value of goods sold to customers less returns, discounts, and value added taxes and other sales tax, which is analysed as follows:

	2014	2013
	RMB'000	*RMB'000*
Footwear	**579,094**	784,364
Apparel and related accessories	**5,176**	8,208
	584,270	792,572

The Group's customer base is diversified and includes only two customers with whom transactions have exceeded 10% of the Group's revenue for the years ended 31 December 2014 (2013: no individual customer had transactions which has exceeded 10% of the Group's revenue).

(b) Segment reporting

The Group manages its businesses by its operating subsidiaries in the PRC, which are engaged in the manufacturing and sales of casual footwear, apparel and related accessories. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has identified five reportable segments, namely, Fujian Jinmaiwang Shoes and Garments Products Co., Ltd. ("Fujian Jinmaiwang"), Shishi Haomai Shoes Industrial Co., Ltd. ("Shishi Haomai"), Luotuo (Quanzhou) Shoes and Garments Co., Ltd. ("Luotuo Quanzhou"), Greiff (Xiamen) International Trading Company Limited ("Greiff Xiamen") and Jiangsu Active Shoes Industrial Co., Ltd. ("Jiangsu Active"). No operating segments have been aggregated to form the above reportable segments.

– Fujian Jinmaiwang: this segment manufactures and sells the "Jimaire" branded as well as original equipment manufacturing casual footwear products. The "Jimaire" brand was launched in 1996 and is developed and owned by the Group. The brand is positioned to target the consumer segment of middle to upper-middle class and offers a range of casual footwear in business classic and practical style.

– Shishi Haomai: this segment manufactures and sells the "Bull Titan" branded casual footwear products. The brand was launched in 1996 and is developed and owned by the Group. The brand is positioned to target the youth market segment and offers casual footwear in sporty and trendy style.

– Luotuo Quanzhou: this segment manufactures and sells the "Luotuo Brand" branded and the "Coremss" branded casual footwear, apparel and related accessories products.

  Luotuo Brand was licensed to the Group in 2003. The brand offers functional outdoor footwear with special features, such as water-proof hiking shoes and air-breathable shoes. The trademark licence agreement which granted the non-exclusive licence to the Group to use the trademark of Luotuo Brand for casual footwear and sport footwear in the PRC expired on 28 February 2013.

The “Coremss” brand was launched in March 2013 with similar positioning with Luotuo Brand. The brand is positioned to target the consumer segment in the age group from 30 to 55 and focuses more on business casual and functional outdoor footwears.

– Greiff Xiamen: this segment sells the “Camel Active” branded and the “Greiff” branded casual footwear, apparel and related accessories products. The “Camel Active” brand was licensed to the Group in 2010. The brand is positioned to target the more affluent consumer segment and offers casual footwear in premium style. The “Greiff” brand was licensed to the Group in 2009. The brand is positioned to target the affluent consumer segment and offers casual footwear, apparel and related accessories in grand and elegant style.

– Jiangsu Active: this segment sells the “Bull Titan” branded and the “Coremss” branded casual footwear.

(i) Segment results

For the purposes of assessing segment performance and allocating resources between segments, the Group’s senior executive management monitors the results attributable to each reportable segment on the following bases:

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

The measure used for reporting segment profit/(loss) is “profit/(loss) after taxation”. To arrive at reportable segment profit/(loss), the Group’s profit/(loss) is further adjusted for items not specially attributed to individual segments and other head office or corporate administrative costs.

A measurement of segment assets and liabilities is not provided regularly to the Group’s most senior executive management and accordingly, no segment assets or liabilities information is presented.

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2014 and 2013 is set out below:

	Year ended 31 December 2014					
	Fujian Jinmaiwang	**Shishi Haomai**	**Luotuo Quanzhou**	**Greiff Xiamen**	**Jiangsu Active**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***
Reportable segment revenue derived from the Group's external customers	**290,118**	**169,047**	**74,448**	**39,892**	**10,765**	**584,270**
Inter-segment revenue	**6,563**	**11,566**	**–**	**–**	**8,260**	**26,389**
Reportable segment revenue	**296,681**	**180,613**	**74,448**	**39,892**	**19,025**	**610,659**
Reportable segment loss						
Loss after taxation	**(13,480)**	**(7,353)**	**(418)**	**(11,435)**	**(53,946)**	**(86,632)**
Impairment of – construction in progress	**–**	**–**	**–**	**–**	**(51,548)**	**(51,548)**

	Year ended 31 December 2013					
	Fujian Jinmaiwang	Shishi Haomai	Luotuo Quanzhou	Greiff Xiamen	Jiangsu Active	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Reportable segment revenue derived from the Group's external customers	427,761	196,935	114,731	48,216	4,929	792,572
Inter-segment revenue	834	14,282	17,742	–	3,632	36,490
Reportable segment revenue	428,595	211,217	132,473	48,216	8,561	829,062
Reportable segment profit						
Profit/(loss) after taxation	48,702	20,990	14,662	(2,403)	168	82,119

(ii) Reconciliations of reportable segment revenue and profit or loss

	2014	2013
	RMB'000	*RMB'000*
Revenue		
Reportable segment revenue	**610,659**	829,062
Elimination of inter-segment revenue	**(26,389)**	(36,490)
Consolidated turnover (note 3(a))	**584,270**	792,572
(Loss)/profit		
Reportable segment (loss)/profit	**(86,632)**	82,119
Elimination of inter-segment loss/(revenue)	**4,651**	(4,725)
Reportable segment (loss)/profit derived from the Group's external customers	**(81,981)**	77,394
Other revenue and other net income	**1,909**	516
Unallocated head office and corporate expenses	**(50,269)**	(5,934)
Consolidated (loss)/profit after taxation	**(130,341)**	71,976

(iii) Geographic information

The following table sets out information about the geographical location of the Group's revenue from external customers. The geographical location of customers is based on the location at which the goods delivered.

	2014	2013
	RMB'000	*RMB'000*
The PRC (place of domicile)	**546,676**	782,834
Korea	**34,948**	6,174
Other countries	**2,646**	3,564
	37,594	9,738
	584,270	792,572

4 OTHER REVENUE AND OTHER NET INCOME

	2014	2013
	RMB'000	*RMB'000*
(a) Other revenue		
Interest income on bank deposits	**1,934**	2,232
Government subsidies	**913**	846
Sundry income	**5**	338
	2,852	3,416

The Group was entitled to unconditional government subsidies of RMB913,000 for the year ended 31 December 2014 (2013: RMB846,000). These government subsidies were recognised as other revenue when they became receivable.

	2014	2013
	RMB'000	*RMB'000*
(b) Other net income		
Net foreign exchange gain	**1,739**	392
Loss on disposal of property, plant and equipment	**–**	(5)
Others	**–**	42
	1,739	429

5 (LOSS)/PROFIT BEFORE TAXATION

(Loss)/profit before taxation is arrived at after charging:

	2014	2013
	RMB'000	*RMB'000*
(a) Finance costs		
Interest expense on:		
– bank loans	**12,882**	10,554
– debentures	**4,285**	–
	17,167	10,554
(b) Staff costs		
Salaries, wages and other benefits	**64,253**	78,314
Equity settled share-base payment expenses	**14,405**	–
Contributions to defined contribution retirement schemes	**1,729**	3,402
	80,387	81,716
(c) Other items		
Cost of inventories	**521,412**	618,192
Depreciation of property, plant and equipment	**5,519**	6,040
Amortisation of trademarks	**734**	734
Amortisation of lease prepayments	**141**	104
Impairment loss of property, plant and equipment	**51,548**	–
Impairment loss on trade receivables	**26,370**	2,926
Impairment loss on trade prepayments	**15,010**	2,949
Equity settled share-based payment expense for business partners and consultants	**19,825**	–
Operating lease charges in respect of properties — minimum lease payments	**4,043**	5,996
Operating lease charges in respect of trademarks — minimum lease payments	**9,338**	7,974
Research and development costs	**4,651**	5,052
Auditors' remuneration	**2,489**	1,903

6 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Taxation in the consolidated statement of profit or loss represents:

	2014	2013
	RMB'000	*RMB'000*
Current tax — PRC corporate income tax		
Provision for the year	**3,633**	32,518
Deferred tax		
Origination and reversal of temporary differences	**(9,080)**	(1,784)
Income tax (credit)/expense	**(5,447)**	30,734

(i) Pursuant to the rules and regulations of the Cayman Islands and the BVI, the Group is not subject to any income tax in the Cayman Islands and the BVI.

(ii) No provision was made for Hong Kong Profits Tax as the Group did not derive any income which is subject to Hong Kong Profits Tax during the years presented. The payments of dividends by Hong Kong companies are not subject to any Hong Kong withholding tax.

(iii) Pursuant to the income tax rules and regulations of the PRC, provision for PRC corporate income tax is calculated based on a statutory rate of 25% of the assessable profits of the companies comprising the Group.

(iv) According to the new tax law of the PRC and its implementation rules, dividends receivable by non-PRC-resident corporate investors from PRC-resident enterprises are subject to withholding income tax at a rate of 10%, unless reduced by tax treaties or arrangements, for profits earned since 1 January 2008.

Since the Group can control the quantum and timing of distribution of profits of the Group's subsidiaries in the PRC, deferred tax liabilities are only provided to the extent that such profits are expected to be distributed in the foreseeable future.

7 (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on the loss attributable to equity shareholders of the Company of RMB130,341,000 (2013: profit attributable to equity shareholders of the Company of RMB71,976,000) and the weighted average of 1,209,595,000 ordinary shares (2013: 1,200,000,000) in issue during the year.

Weighted average number of ordinary shares

	2014	2013
	'000	*'000*
Issued ordinary shares	**1,200,000**	1,200,000
Effect of share options exercised	**9,595**	–
Weighted average number of ordinary shares	**1,209,595**	1,200,000

(b) Diluted (loss)/earnings per share

The calculation of diluted (loss)/earnings per share is based on the weighted average number of shares in issue adjusted for the potential dilutive effect caused by the share options granted under the share option schemes assuming they were exercised.

Weighted average number of ordinary shares (diluted)

	2014	2013
	'000	*'000*
Weighted average number of ordinary shares	**1,209,595**	1,200,000
Effect of deemed issue of shares under the Company's share option schemes	**1,690**	–
Weighted average number of ordinary shares (diluted)	**1,211,285**	1,200,000

8 INVENTORIES

(a) Inventories in the consolidated statement of financial position comprise:

	2014	2013
	RMB'000	*RMB'000*
Raw materials	**62,985**	75,788
Work in progress	**3,471**	2,902
Finished goods	**40,739**	35,218
	107,195	113,908

(b) The analysis of the amount of inventories recognised as an expense and included in the consolidated statement of profit or loss is as follows:

	2014	2013
	RMB'000	*RMB'000*
Carrying amount of inventories sold	**519,630**	618,192
Write down of inventories	**1,782**	–
	521,412	618,192

9 TRADE AND OTHER RECEIVABLES

	2014	2013
	RMB'000	*RMB'000*
Trade receivables and bills receivables	**504,112**	386,283
Less: allowance for doubtful debts	**(38,099)**	(11,729)
	466,013	374,554
Deposits and prepayments (notes (i) and (ii))	**555,827**	504,462
Amount due from a director	**17,820**	18,481
Other receivables	**302**	4,940
	1,039,962	902,437

Notes:

(i) Included in the deposits as at 31 December 2014 were rental and utilities deposits of RMB611,000 (2013: RMB741,000) which were not expected to be recovered within one year.

(ii) Prepayments mainly consist of advance payments made to suppliers for purchases of raw materials and finished goods amounted RMB473 million (2013: RMB502 million) and prepayment for development of online marketplace amounting to RMB79.6 million paid in October 2014 (2013: RMB Nil).

Apart from (i) above, all of the trade and other receivables (including amount due from a director) are expected to be recovered or recognised as expense within one year.

As of the end of the reporting period, the ageing analysis of trade receivables and bills receivables, based on the invoice date and net of allowance for doubtful debts, is as follows:

	2014	2013
	RMB'000	*RMB'000*
Within 90 days	**97,824**	190,360
91 days-180 days	**66,960**	64,495
181 days-360 days	**209,605**	86,236
Over 361 days	**91,624**	33,463
	466,013	374,554

Trade receivables and bills receivables are normally due within 90 days from the date of billing. The Group also offers revolving credit to its customers. The revolving credit, which provides for a maximum credit limit that may be outstanding at any one time, is determined based on factors such as the customers' credit history and current ability to pay. The funding need of a customer for the purpose of expanding its sales network is also taken into consideration.

10 TRADE AND OTHER PAYABLES

	2014	2013
	RMB'000	*RMB'000*
Trade payables	**81,485**	44,722
Bills payables	**150,300**	228,088
	231,785	272,810
Amount due to a director	**12,306**	42,228
Advance payments from customers	**52,251**	74,797
Other payables and accruals	**48,438**	43,799
	344,780	433,634

All of the above balances (including the amount due to a director) are expected to be settled within one year or repayable on demand.

As of the end of the reporting period, the ageing analysis of the trade and bills payables (which are included in trade and other payables), based on the invoice date, is as follows:

	2014	2013
	RMB'000	*RMB'000*
Within 2 months	**26,448**	121,811
More than 2 months but within 3 months	**44,161**	50,904
More than 3 months but within 12 months	**126,779**	74,590
More than 12 months	**34,397**	25,505
	231,785	272,810

11 DIVIDENDS

No dividend was proposed during the years ended 31 December 2014 and 2013, nor has any dividend been proposed since the end of reporting period.

AUDIT OPINION

The auditors of the Company will issue a disclaimer of opinion on the financial statements of the Group for the year under review. An extract of the auditor's report is set out in the section headed "Extract of report of the auditors" below.

EXTRACT OF REPORT OF THE AUDITORS

The following is an extract of the independent auditor's report on the Group's consolidated financial statements for the year ended 31 December 2014.

Basis for disclaimer of opinion

(a) On 30 September 2014, the Group entered into an agreement (the "Agreement") with a technology service provider in relation to the research and development for the setting up and operation of the online marketplace at a consideration of RMB120,000,000. Pursuant to the terms of the Agreement, the Group was required to prepay RMB80,000,000 upon signing of Agreement. As at 31 December 2014, the Group prepaid an amount of RMB79,554,000 to the service provider. As disclosed in note 18 to the consolidated financial statements, the balance was recorded in trade and other receivables as at 31 December 2014. There is no satisfactory evidence available to us to substantiate the substance of the development project and satisfy ourselves as to whether the amount was paid to the aforesaid service provider. Accordingly, we were unable to obtain sufficient audit evidence to support that the prepayment was properly accounted for and disclosed or that the prepayment balance was recoverable.

(b) As disclosed in note 14 to the consolidated financial statements, the Group made prepayments totalling RMB60,000,000 to two individuals for the acquisition of retail shops in the PRC in October 2014 and the amount was included in non-current prepayments for acquisitions of property, plant and equipment as at 31 December 2014. The acquisition of the aforesaid retail shops has not been completed as of the date of this auditor's report. There is insufficient evidence available to us to ascertain the validity of the recorded transactions and balances related to the prepayments. We were therefore unable to satisfy ourselves that these transactions were properly accounted for and disclosed or that the amounts were paid to the aforesaid individuals and were recoverable.

(c) Included in trade and other receivables as at 31 December 2014 were trade receivables and bills receivables of RMB466,013,000 (net of allowance for doubtful debts). As disclosed in note 18(a) to the consolidated financial statements, the balance of trade receivables and bills receivables aged over 180 days (based on invoice date and net of allowance for doubtful debts) increased from RMB119,699,000 as at 31 December 2013 to RMB301,229,000 as at 31 December 2014. Despite the significant deteriorating ageing during the year ended 31 December 2014, the directors considered that the Group is able to recover the amounts. However, we were unable to obtain sufficient evidence to evaluate the recoverability of the recorded balances or to receive satisfactory explanations as to the substantial increase in the amount of receivables relating to sales in the first half of the year which remain outstanding as at 31 December 2014, compared to the same period last year. We are therefore unable to satisfy ourselves that sales have been properly recognised in accordance with the Group's revenue recognition policy and that the outstanding amounts were recoverable as at 31 December 2014.

In addition, we noted that there were unutilised advance payments included in trade and other receivables totalling RMB472,757,000 as at 31 December 2014 part of which was an aggregate balance of RMB14,120,000 without utilisation for more than one year as at that date. We were unable to obtain sufficient evidence to ascertain that such advance payments made will be utilised for the purchase of raw materials in the foreseeable future. We were therefore not able to satisfy ourselves that such advance payments were recoverable.

(d) As disclosed in note 11 to the consolidated financial statements, as at 31 December 2014 the Group has recorded RMB126,247,000 as cost of construction in progress. However, based on the valuation report prepared by an independent appraiser as at 31 December 2014, the independent appraiser estimated that the work done to that date represented an earlier stage of completion than is recorded in the records of the Group and that the estimated value of the construction in progress computed on a replacement cost basis was RMB74,699,000. Management could not provide us with a reasonable explanation for the difference in stage of completion or estimated cost of the work done to date. As a result, we were not able to obtain sufficient audit evidence to determine whether the cost and the carrying amount of the construction in progress as at 31 December 2014 is fairly stated and the amount charged to profit or loss account as impairment to reflect this difference between cost and valuation is properly categorised.

(e) As required under Hong Kong Standard of Auditing 560, Subsequent events, issued by the Hong Kong Institute of Certified Public Accountants, we requested management of the Group to provide information and documentation to complete our audit procedures over significant transactions or events which may have occurred between the period from 1 January 2015 to the date of this auditor's report. Up to the date of this auditor's report, management of the Group has not provided us with the requested information and documentation. As a result, we are unable to form an opinion on whether significant transactions or events which occurred during the period from 1 January 2015 to the date of this auditor's report were properly accounted for and adequately disclosed in the consolidated financial statements.

(f) Note 1(b) to the consolidated financial statements states that the Group recorded a net loss of RMB130,341,000 and a net operating cash outflow of RMB204,815,000 for the year ended 31 December 2014. Furthermore, bank loans totalling RMB219,239,000 were due for renewal or repayment within the next twelve months and as disclosed in note 24(c), the covenants in relation to certain bank loans of the Group totalling RMB47,000,000 as at 31 December 2014 were breached. Notwithstanding the above, the consolidated financial statements have been prepared on a going concern basis, the validity of which depends upon the Group's ability to improve its business performance and extend its existing borrowings upon their maturities. These conditions, along with other matters as described in note 1(b), indicate the existence of a material uncertainty which may cast significant doubt about the ability of the Group to continue as a going concern. Because of the significance of the matters described above, we are unable to form an opinion as to whether this basis of preparation is appropriate.

Any consequential effect in connection with the above matters would affect the net assets of the Company and the Group as at 31 December 2014 and the Group's loss for the year ended 31 December 2014, and the related disclosures in the consolidated financial statements.

Disclaimer opinion

Because of the significance of the matters described in the basis for disclaimer of opinion paragraphs, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the consolidated financial statements as to whether they give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2014 and of the Group's loss and cash flows for the year then ended in accordance with International Financial Reporting Standards and as to whether the financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

AUDIT COMMITTEE'S VIEW

The Group's annual results for the year ended 31 December 2014 have been reviewed by the audit committee of the Company (the "**Audit Committee**").

Members of the Audit Committee have reviewed the draft auditors' report and have decided to establish a working group to review the issues. The working group will consist of Mr. Chen Yuanjian, the chief financial officer of the Group and an executive Director, Ms. Yau Suk Yan, the financial controller and the company secretary of the Company, staff from finance department and all of the independent non-executive Directors.

The Audit Committee has also decided to retain an independent accounting firm in Hong Kong to review the issues and report to the Audit Committee directly on the factual findings and if applicable, the recommendations for the improvement measures to the internal control systems of the Group. The Audit Committee will determine the scope of review and the appointment of the independent accounting firm accordingly, and further announcement(s) will be made by the Company to report on the progress.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Amidst the sluggish retail atmosphere in the market, the Group has been undergoing transition to adapt to the slower market growth which could probably be the new norm for China, and it made great efforts during the year to introduce new measures to increase its products' competitiveness in the market. The Group implemented a multi-brand strategy with five brands currently under operation, including three self-owned brands (***Jimaire, Bull Titan*** and ***Coremss***) and two licensed brands (***Greiff*** and ***Camel Active***) and proactively adjusted the operating strategies and integrated existing resources for further brand development. The launch of more functional footwear and design of novel and fashionable footwear to meet the market demand enabled the Group to optimizing its product mix and product creation. The Group is also continuously expanding its customer base through innovative product design, so as to further consolidate its business base and increase the sources of income.

Meanwhile, due to overall weakness in the market, the sales volume of the Group's branded products slightly decreased by 7.3% with a corresponding decrease in sales value noted in 2014. Despite the short term challenges, the Group still expects to continue to expand its sales and distribution network and increase its business penetration and products' market share in the longer term. In order to cope with the challenging market environment, the Group selected business partners prudently, and spared no effort in optimizing the existing retail network in addition to steadily increasing the number of its retail sales points. In addition to conventional retail sales points, the e-commerce O2O platform is also a new frontier to be expanded. The management believes that, the expansion of the sales channels will help to attract younger consumers to further enlarge its customer base; and the loyal followers of the Group's brands will also overcome the geographical constraints for product updates at any time, so the sales performance will be improved.

The Group actively carried out the cost control measures, and tackled the burden of increasing production costs through strategies such as bulk purchases. However, the Group has lowered branded products prices and provided more discounts to distributors to encourage them to devote more resources to marketing activities thereby enhancing the brand awareness of the Group for market share expansion, the gross profit has thus been affected. Nevertheless, the management believes that, when the market recovers, its solid foundation will help the Group swiftly seize the opportunities to achieve better operating performance.

On 16 December 2014, the Company announced that the Company entered into an acquisition agreement (as supplemented by the supplemental agreement dated 6 March 2015) with an individual, an independent third party, pursuant to which the Company agreed to purchase, through its indirect wholly-owned subsidiary, Fujian Jinmaiwang Shoes and Garments Products Co., Ltd. (福建金邁王鞋服製品有限公司), the 51% equity interest of a target company established in the PRC. The target company is principally engaged in the development, promotion and transfer of and consultancy on software and computer technologies, as well as the provision of services on computer systems, data processing, fundamental software and application software. Pursuant to the acquisition agreement, the Company has agreed to pay a consideration of RMB51,000 and allot and issue 64,998,422 consideration shares to the vendor. The acquisition was not completed as at the date of this announcement. Details of the acquisition are disclosed in the announcements released by the Company on 16 December 2014, 29 January 2015, 17 February 2015 and 6 March 2015 respectively.

SALES AND DISTRIBUTION NETWORK

The branded products of the Group are sold through an extensive retail sales network, which is operated and maintained by the Group's customers, including distributors and department stores. As at 31 December 2014, the Group has entered into master sales agreements with 95 distributors and 426 department store customers which operated 1,884 retail sales points (as at 31 December 2013: 2,511 retail sales points) located throughout the PRC. The Group always prefers to maintain a reasonable and steady pace of retail sales network expansion. In order to adapt to the changing market conditions, the Group has conducted a stringent review over its retail sales points portfolio and made a net closure of 627 retail sales points and one self-owned flagship store with unsatisfactory performance and lower profit efficiency during the year.

	Number of retail shops and department store counters As at 31 December	
	2014	2013
Northern Region[(1)]	**252**	366
Northeastern Region[(2)]	**154**	196
Northwestern Region[(3)]	**235**	315
Eastern Region[(4)]	**623**	789
Southern Region[(5)]	**184**	264
Southwestern Region[(6)]	**151**	231
Central Region[(7)]	**285**	350
	1,884	2,511

Notes:

(1) Northern Region includes Beijing, Tianjin, Shanxi, Hebei and Inner Mongolia.

(2) Northeastern Region includes Heilongjiang, Liaoning and Jilin.

(3) Northwestern Region includes Gansu, Shaanxi, Qinghai, Xinjiang and Ningxia.

(4) Eastern Region includes Fujian, Shandong, Zhejiang, Jiangxi, Jiangsu, Anhui and Shanghai.

(5) Southern Region includes Guangdong, Guangxi and Hainan.

(6) Southwestern Region includes Sichuan, Yunnan, Guizhou, Chongqing and Tibet.

(7) Central Region includes Henan, Hubei and Hunan.

Recognizing the increasing demand for online shopping, the Group will place e-commerce as its key development strategy in 2015. During the year, the Group continued to strengthen its online business by selling its branded products through popular e-commerce platforms such as Tmall.com (天貓網), JD.com (京東商城) and Vip.com (唯品會). Through using differentiated product merchandising and pricing strategies specifically designed for online channels, the Group is well positioned to seize the potentially enormous opportunity, and broaden the target customer base online. The Group also engaged a third party to develop an O2O platform, which includes setting up an information technology network supported by both hardware and software, to attract target customer online and directing them to offline physical stores at a consideration of RMB120 million. Details of which are disclosed in the announcement released by the Company on 30 September 2014. As part of the O2O platform development plan, the Group has also made prepayment of RMB60 million by the end of 2014 for the acquisition of two spacious roadside retail shops located in Xiamen. The management considers this two retail shops not only could provide experience-based marketing of the Group's branded products, they could also provide track record of consumer's preference over product design and quality.

Despite short term challenges, the Group still expects to continue to expand the retail sales network and increase brand market penetration in the longer term. The Group currently puts more focus on the quality of individual sales point as well as the overall retail sales points portfolio. The new retail sales network expansion will be mainly driven by the increase of the presence of Group's brands that are competitive and suitable.

PRODUCT DESIGN AND DEVELOPMENT

The Group believes functionality and comfort and cutting-edge design are the most critical points for improving product differentiation and enabling the Group's branded products to stand out in the highly competitive footwear market. By leveraging the R&D professional team's in-depth knowledge of the market and fashion trends and the preferences of target consumer groups in China, the Group is able to transform its designs into commercially viable, high-quality and widely accepted products. The Group's R&D department located at Guangzhou, which is equipped with advanced facilities and software, enables the Group to access updated industry information in a timely and efficient manner. As at 31 December 2014, there were 103 R&D professionals responsible for maintaining a steady output of high quality new designs. During the year, the Group has designed approximately 2,236 and 177 new styles in the footwear segment and the apparel and accessories segment respectively. Approximately 45.8% of the new designs subsequently went into commercial production. During the year, the Group introduced new features on its products, such as shockproof soles, casual pea-sole shoes and bumper leather hiking shoes, which were all received favourable feedback from sophisticated consumers in the PRC.

R&D spending has accounted for about 1.39% of turnover for the year (2013: 1.07%). The Group continued to make good use of different and special materials to broaden the appearance and functionality of its footwear offerings. It believes that its professional and experienced R&D team is able to provide a solid foundation for expanding its market share. The Group continues to focus on developing its design capacity in terms of style and functional innovation which should help optimise its product portfolio to realise sustainable growth in the market.

PRODUCTION

As at 31 December 2014, the Group operated ten production lines at its production base in Fujian province with a total capacity of 4.7 million pairs of footwear, and the utilisation rate has reached around 96.6% for the year. The Group expects when further internal remedial work and interior decoration work of the new production plant located in Suining, Jiangsu province to be completed in the near future, trial run production can be commenced promptly in 2015.

The new production plant quipped with five production lines and could provide around 3 million pairs of footwear and a small quantity of apparel products once it is in full operation. It would enable the Group to benefit from economies of scale and a more stable labour supply. Enjoying the ideal location closer to its major existing and potential markets, the Group believes that the new plant should strengthen its market presence and underpin its future growth.

FINANCIAL ANALYSIS

Turnover

The total turnover of the Group for the year ended 31 December 2014 was RMB584.3 million, representing a decrease of 26.3% as compared to that of 2013. The decrease in turnover was mainly due to the decrease in sales of OEM, and slowdown in sales of Group's branded products as a result of the overall weak and sluggish retail market during the year.

Revenue analysis by brand and product is as follows:

	For the year ended 31 December	
Revenue analysis by brand	**2014**	2013
	RMB'000	*RMB'000*
Jimaire	**134,676**	148,167
Bull Titan	**179,305**	196,935
Coremss	**74,954**	104,497
Luotuo Brand	**–**	15,163
Greiff	**15,071**	24,981
Camel Active	**25,003**	23,235
	429,009	512,978
OEM	**155,261**	279,594
Total	**584,270**	792,572

Revenue analysis by product	For the year ended 31 December			
	2014	**%**	2013	%
	RMB'000		*RMB'000*	
Casual footwear				
– Branded products	**423,833**	**72.5**	504,770	63.7
– OEM	**155,261**	**26.6**	279,594	35.3
Apparel and accessories	**5,176**	**0.9**	8,208	1.0
	584,270	**100.0**	792,572	100.0

The Group's branded product sales decreased from RMB513.0 million for the year ended 31 December 2013 to RMB429.0 million for the year ended 31 December 2014, representing a decrease of 16.4%.

During 2014, consumer demand and sentiment in China continued to be weak. All the Group's branded products were challenged by the cut-throat price competition from counterparties in the industry when they made rigorous efforts to liquidate old stocks. To cope with the vicious competitions in the market, the Group had to reduce its branded products' prices in order to let its distributors enjoyed a more competitive advantage over their peers. For the year ended 31 December 2014, the sales volume of the Group's branded footwear products was 3.5 million pairs, a decrease of 7.0% from 3.8 million pairs for the year ended 31 December 2013. The average sales price decreased from RMB135.2 per pair to RMB121.5 per pair. This was primarily a result of the mentioned adjustment on price ranges the Group provided to distributors over the Group's branded footwear products in order to have a stronger competitive power among intensive competition in the market.

Especially for the brands ***Bull Titan*** and ***Greiff***, which target consumers are sophisticated young generation, were deeply impacted by the overall weakening economy in 2014. Sales of products under ***Luotuo Brand*** ceased since March 2013 after the expiry of the trademark licence agreement, which was subsequently replaced by the Group's another new brand with similar positioning, ***Coremss***. Through effective marketing and sales strategy, ***Coremss*** has achieved a sound revenue of RMB60.8 million in the first half of 2014, which shows the brand was widely accepted by the consumers. ***Coremss*** is now undergoing a reposition of brand image in the market in order to enrich and diversify the Group's product portfolio, as well as to attract new customer groups. Its autumn-winter collection was in exploration phase and market response still needs to be tested. Overall sales performance under ***Coremss*** was then affected with a decrease of RMB29.5 million or approximately 28.3%, from RMB104.5 million for the year ended 31 December 2013 to RMB75.0 million for 2014.

Revenue from OEM operations decreased by RMB124.3 million or approximately 44.5%, from RMB279.6 million for the year ended 31 December 2013 to RMB155.3 million for 2014. This was the result from the intensed price competition with other manufacturers in the market who try to utilize their spare production capacity under current unfavourable market condition. In addition, many OEM orders were directed to neighboring countries such as Indonesia, Thailand and Vietnam, where the production costs were comparatively lower than that in China. The Group continuously strives to optimise its production capacity and continue its focus and resources allocation strategy towards the Group's branded products, which contributes over 73.4% of turnover to the Group.

The following table sets out a breakdown of the number of units sold and the average selling price of the Group's branded products during the financial years indicated:

		For the year ended 31 December			
		2014		2013	
By number of units sold and average selling price		**Total units sold**	**Average selling price**	Total units sold	Average selling price
		'000	***RMB***	*'000*	*RMB*
Jimaire	– Footwear (pairs)	**1,024**	**131.5**	1,105	134.1
Bull Titan	– Footwear (pairs)	**1,661**	**107.9**	1,468	134.2
Coremss	– Footwear (pairs)	**632**	**118.7**	880	118.7
Luotuo Brand	– Footwear (pairs)	**–**	**–**	119	127.8
Camel Active	– Footwear (pairs)	**92**	**270.4**	127	182.6
Greiff	– Footwear (pairs)	**122**	**81.4**	96	175.4
	– Apparel (pieces)	**39**	**132.4**	55	149.5
	– Accessories (pieces/pairs)	**–**	**–**	0.07	22.9

Revenue analysis of branded products by geographical location is as follows:

	For the year ended 31 December			
	2014		2013	
By region	***RMB'000***	**%**	*RMB'000*	%
Northern Region	**24,682**	**5.8**	63,272	12.3
Northeastern Region	**23,852**	**5.5**	31,225	6.1
Northwestern Region	**24,316**	**5.7**	43,722	8.5
Eastern Region	**283,860**	**66.2**	281,605	54.9
Southern Region	**22,029**	**5.1**	20,560	4.0
Southwestern Region	**29,280**	**6.8**	47,777	9.3
Central Region	**20,990**	**4.9**	24,817	4.9
	429,009	**100.0**	512,978	100.0

Revenue generated from Northern and Eastern Regions for the year ended 31 December 2014 accounted for 72.0% (2013: 67.2%) of total branded products sales. This was mainly attributable to the location of retail sales points in major first-tier cities such as Shanghai, Fujian and Beijing, where customers are relatively more affluent with strong purchasing power.

GROSS PROFIT AND GROSS PROFIT MARGIN

It was another challenging year in terms of rising labour and raw materials costs, gross profit of the Group decreased by 64.0% and reached RMB62.9 million for the year ended 31 December 2014 (2013: RMB 174.4 million), while gross profit margin of the Group for the year ended 31 December 2014 was 10.8%, representing a decrease of 11.2 percentage point when compared with 2013.

The decrease in gross profit margin of the Group was mainly contributed by the aforesaid adjustment on products selling price to cope with the cut-throat price competition from the peers. Another reason which led to the decrease in gross profit for the year was the increase in unit production cost. The increasing unit production cost was not only driven by the increasing trend in labour and raw material costs, also in order to increase the Group's products' competitive power in the market and in response to the increasing demand over the comfort level, functionality of men's casual footwear and growing health consciousness among consumers in the PRC, the Group introduced more innovative product designs and advanced materials used for production during the year. However, management decided not to pass the increase in production cost to its customers but offered further discounts to them so that they could enjoy a competitive advantage over their peers, in order to enhance the Group's brands recognition and enlarge its market share in the PRC. On the other hand, the Group strives to obtain bulk purchase discount from suppliers by placing orders of purchasing raw materials with larger volume, in order to cope with the pressure of the increasing raw material costs.

The Group believes that when the Group's products have achieved a higher customer loyalty and increased its popularity and market share, and also when the market ends its vicious competitions after the exit of smaller and weaker players in the industry, the Group would decrease its discounts offered to its customers and enjoy a higher gross profit margin afterwards.

SELLING AND DISTRIBUTION EXPENSES

The Group's selling and distribution expenses primarily consisted of advertising and promotional expenses, royalties for licensed brands, salaries for sales and marketing staff, and other costs related to sales and distribution.

Selling and distribution expenses were RMB22.9 million, amounted to approximately 3.9% of turnover for the year ended 31 December 2014 (2013: 3.4%), primarily as a result of planned execution of marketing and sales strategy, and less marketing promotion support provided to its customers given more discount was offered by the Group during the year. The Group believes when customers launch marketing campaign under the Group's suggested framework with its own planning and design, it would improve the efficiency of marketing activities for the promotion of the Group's brands in different provinces in the PRC with customers having different consumption habits.

ADMINISTRATIVE EXPENSES

Administrative expenses increased by approximately 327% to RMB163.1 million for the year ended 31 December 2014, mainly caused by the provision of impairment loss on construction in progress for RMB51.5 million in relation to the delay of completion of construction of the new production plant in Suining, Jiangsu province. The Group expects that when further interior works of the new production plant are completed in the near future, trial run production can commence in 2015. The Group will engage an independent appraiser to carry out valuation on the whole production plant when it operates with stable production schedule and purchase orders. Increment was also led by the impairment loss on prepayments of RMB15.0 million recognized during the year ended 31 December 2014, in respect of those long outstanding balances with no goods or services received by the Group (2013: RMB2.9 million), together with additional allowance for doubtful debts recognized for overdue receivables which amounted to RMB26.4 million (2013: RMB2.9 million). The Group will take all necessary measures to tighten its credit control to improve the recovery of its trade receivables in the future. Up to the date of the announcement, the Group subsequently received RMB42.3 million settlement from customers, and received goods and net off prepayment amounted to RMB88.9 million.

Regarding the arrangement for the issue of debenture and grant of share options to directors, certain employees and business partners during the year, additional one-off legal and professional fee and commission was recorded with an amount of RMB1.2 million, together with the immediate recognized expenses for the grant-date fair value of fully vested shares options granted on 17 October 2014 with RMB34.2 million record for the year ended 31 December 2014.

OTHER REVENUE

Other revenue for the year ended 31 December 2014 mainly represented government grants of RMB0.9 million (2013: RMB0.8 million) and interest income yielded from bank deposit during the year of RMB1.9 million (2013: RMB2.2 million).

FINANCE COSTS

Finance costs represented interest expenses on interest-bearing short-term bank loans and debentures. Interest expenses increased by approximately 62.7% from RMB10.6 million for the year ended 31 December 2013 to RMB 17.2 million for the year ended 31 December 2014, primarily due to additional working capital bank loan drawn during the year and increase in effective interest rate of bank borrowings from 6.4% for the year ended 31 December 2013 to 7.1% for the year ended 31 December 2014.

INCOME TAX

Income tax recorded for the year ended 31 December 2014 mainly represented provision of PRC corporate income tax for RMB3.6 million, offset by the deferred income tax assets of RMB9.1 million recognized for allowance for impairment of trade receivable and trade prepayments to the extent that the realization of the related tax benefits through future taxable profits.

LOSS FOR THE YEAR

Loss for the year was RMB130.3 million, as compared to a profit of RMB72.0 million during the corresponding period in 2013. The loss was mainly due to the decline in gross profit earnings from Group's branded products and OEM products, provision for impairment loss on construction in progress of RMB51.5 million (2013: RMB Nil) and one-off expenses for grant-date fair value of fully vested shares options granted of RMB34.2 million recorded for the year ended 31 December 2014.

LIQUIDITY AND CAPITAL RESOURCES

In order to achieve better cost control and minimise the cost of funds, the Group's treasury activities are centralised and cash is generally deposited with banks and denominated mostly in RMB. As at 31 December 2014, the Group had net current assets of RMB778.9 million (31 December 2013: RMB466.9 million), of which cash and cash equivalents amounted to RMB104.0 million (31 December 2013: RMB12.7 million).

The Group has always been pursuing a prudent treasury management policy and is in a strong liquidity position with sufficient standby banking facilities to cope with daily operations and future development demands for capital. As at 31 December 2014, including the banking facilities as secured by the Group's pledged deposits, total available banking facilities of the Group amounted to RMB582.4 million, among which RMB414.3 million was utilised by the Group for its bank loans and bills payable. The ratio of outstanding bank loans to total assets was 13.8% (31 December 2013: 15.8%).

On 1 August 2014, the Company and two independent private individual investors, as subscribers entered into the Subscription Agreements pursuant to which the subscribers agreed to subscribe and the Company agreed to issue the Bonds in an principal amount of HK$5 million each, respectively. Details of the issue of bonds were disclosed in the Company's announcement dated 1 August 2014.

On 4 August 2014, the Company announced the issue of the First Debentures bearing interest rate up to 7% per annum with maturity date ranging from second to eighth anniversary of the issue date of the debentures. The Company intends to use the net proceeds from the issue of the First Debentures for developing aforesaid O2O platform. In addition, the net proceeds for the issue of First Debentures was used for the repayment of the existing debts and as the general working capital of the Group. Details of the issue of the First Debentures were disclosed in the Company's announcement dated 4 August 2014.

On 8 October 2014, the Company announced the issue of the Second Debentures bearing interest rate up to 7% per annum with maturity date ranging from 24- to 96-month anniversary of the issue date of the debentures. The Company intends to use the net proceeds from the issue of the Second Debentures for the repayment of the existing debts and as the general working capital of the Group. Details of the issue of the Second Debentures were disclosed in the Company's announcement dated 8 October 2014.

The Directors consider that raising funds by issuing the Bonds, the First and Second Debentures provides an opportunity for the Company to repay the existing debts and enhance its working capital. The Directors consider that the issue of the Bonds, the First and Second Debentures is an appropriate means of raising additional capital for the Company since it will not have any dilution effect on the shareholding of the existing Shareholders.

As at 31 December 2014, the Company issued HK$ denominated debentures in aggregate principal with total amount of HK$473 million (equivalent to RMB373.2 million), bearing interest rate at a range of 3.3%-7.0% per annum, and they are unsecured and repayable ranged from December 2016 to December 2022.

The Group has not experienced any material difficulties or effects on its operations or liquidity as a result of fluctuations in currency exchange rates during 2014, and the Group has not entered into any interest rate swap arrangements to hedge against interest rate risks.

As at 31 December 2014, cash and cash equivalents, including bank deposits with original maturities not exceeding three months, amounted to RMB104.0 million. The increase of RMB91.4 million as compared to the Group's position as at 31 December 2013 was mainly attributable to:

- Net cash used in operating activities amounted to RMB198.3 million (excluding income tax paid for RMB6.5 million), mainly resulted from the net increase of trade and bills receivables amounted to RMB117.9 million, though partially offset by the decrease of advance payments to suppliers of approximately RMB14.3 million for securing raw materials and outsourcing production in advance for future inflation, together with the increase in trade and other payables of RMB58.2 million and the effect of loss before taxation of RMB135.8 million;

- Net cash used in investing activities amounting to RMB60.7 million (excluding net increase in placement of pledged deposits for secured bank loan and bills payables amounting to RMB8.2 million), which was mainly due to the prepayments incurred for the acquisition of retail shops amounted to RMB60 million and acquisition of plant and equipment amounted to RMB0.7 million, which was partially offset by interest of RMB1.9 million received;

- Net cash generated from financing activities amounted to RMB365.1 million, which was mainly attributable to proceeds from bank loans and issue of debentures of RMB232.7 million and RMB 373.2 million respectively, and proceeds from issue of shares after grantees vested the share option to subscribe for 42,000,000 new ordinary shares (excluding proceeds of 39,500,000 new ordinary shares directly offset with the liabilities to suppliers for raw materials received) with exercise price of HK$0.72 per Share for RMB23.9 million, which was partially offset by the repayment of bank loans of RMB222.5 million and interest payment of RMB12.9 million.

FOREIGN EXCHANGE RISK

The Group mainly operates in the PRC with most of the transactions settled in RMB. Part of the Group's cash and bank deposits are denominated in Hong Kong Dollars.

During the year, the Group did not hedge any foreign exchange exposure against foreign currency risk. However, the management will continue to monitor foreign currency risks and adopt prudent measures as appropriate.

PLEDGE OF ASSETS

As at 31 December 2014, the Group secured its bank loans and bills payables by a charge over land use rights with an aggregate carrying amount of RMB5.4 million (2013: RMB4.4 million), buildings with net book value of RMB29.7 million (2013: RMB31.7 million) and pledged deposits with an aggregate carrying amount of RMB117.0 million (2013: RMB 108.6 million).

Included in secured and unsecured bank loans as at 31 December 2014 were bills discounted with recourse totalling RMB16.0 million and RMB4.0 million (31 December 2013: RMBNil and RMB28.5 million), respectively.

WORKING CAPITAL MANAGEMENT

The Group recognises the importance of maintaining strong and stable cash flow from its operations in order to stay competitive and capture business opportunities as they arise.

The Group's inventory mainly composed of raw materials. The inventory turnover days of the Group were 77 days for the year ended 31 December 2014 (2013: 59 days), primarily as a result of the bulk purchase of raw materials in order to receive a more sound unit price to cope with the pressure of increasing production costs during the year.

The trade and bills receivables turnover days for the year ended 31 December 2014 increased to 224 days (2013: 161 days), primarily due to the granting of payment extensions to some of the customers. The Group would strive to strengthen its credit control and keep a close monitor over customers with long aged outstanding balance. Up to the date of this announcement, the Group subsequently received RMB42.3 million settlement from customers, accounted for 9.1% of outstanding balance of trade and receivables as at 31 December 2014.

The turnover days for trade and bills payables rose to 161 days for the year ended 31 December 2014 (2013: 134 days), which was mainly because the Group has fully utilised the extended credit period offered by certain suppliers during the year.

USE OF PROCEEDS

The Group was listed on the Main Board of the Stock Exchange on 28 September 2011. Net proceeds from the global offering of approximately HK$337.4 million (after deducting the underwriting commission and relevant expenses) were fully utilised.

Use of net proceeds from global offering

	Percentage to total amount	Net proceeds *(HK$ million)*	Utilised amount (up to 31 December 2014) *(HK$ million)*	Unutilised amount (as at 31 December 2014) *(HK$ million)*
Establishing a new production facility	39.1%	131.9	131.9	–
Establishing self-owned and operated flagship stores	22.4%	75.6	75.6	–
Establishing a new product testing and R&D laboratory	15.6%	52.6	52.6	–
Developing and increasing brand awareness	6.6%	22.3	22.3	–
Expansion of the product R&D teams and equipment	3.2%	10.8	10.8	–
Establishing of an enterprise resource planning (i.e. ERP) system	3.2%	10.8	10.8	–
Expansion of original production capacity	2.6%	8.8	8.8	–
General working capital	7.3%	24.6	24.6	–
		337.4	337.4	–

EMPLOYEES AND EMOLUMENTS

As at 31 December 2014, the Group employed a total of 1,441 full-time employees in the PRC and Hong Kong, which included management staff, product designers, technicians, salespersons and workers. Remuneration for the entire full-time workforce amounted to RMB66.0 million for the reporting year, which is equivalent to 11.3% of the Group's turnover. The Group's emolument policies are formulated based on the performance of individual employees, whose performance are reviewed and evaluated periodically. Apart from contributions to the provident fund scheme (operation in accordance with the provisions of the Mandatory Provident Fund Schemes Ordinance for Hong Kong employees) and social security fund (including retirement pension insurance, medical insurance, unemployment insurance, injury insurance and maternity insurance for the PRC employees), discretionary bonuses are also awarded to employees according to individual performance. In addition, the Company adopted the share option scheme on 4 September 2011 for the purpose of providing incentives to directors and eligible employees. On 17 October 2014, the Company has granted 120,000,000 share options, subject to acceptance by the grantees, to subscribe for an aggregate of 120,000,000 Shares under the share option scheme, and of which 50,500,000 share options were granted to the Directors and certain employees. Respective equity settled share-base payment expenses of RMB14.4 million was recognized as staff costs for the year ended 31 December 2014 (2013: RMB Nil).

PROSPECTS

Looking ahead, China's future economy is expected to be stabilized after transformation and without significant downside risk. However, the management anticipates that the macro-economic environment, structural changes, including evolving channels and shifting consumer behaviour, will continue to exert pressure on the domestic retail market. However, the management believes that current difficult situation characterized by sluggish growth is only temporary and will not last in the long term, there is still enormous potential in the men's casual footwear market. The Group will continue to tackle the forthcoming challenges with the principle of steady development and progress to overcome the obstacles ahead. In 2015, the Group has taken active steps to improve the liquidity position of the Group and to maintain a healthy and strong financial position, such steps include fund raising through issue of debentures, evaluating alternative sources of financing and implementing stringent cost control measures. Furthermore, the Group will continue to strengthen customer relationships in the second round of the spring-summer sales fair and actively explore emerging online and offline retail channels. With these measures, the Group maintains a prudent but positive outlook for the business performance in 2015.

Along with the gradually increasing consumer recognition of the multiple functions and comfort of casual footwear, it has become a must-buy for consumers. In order to seize a larger market share, the Group will continue to enhance the reputation of its brands, and introduce more products to the market to strengthen its product portfolio. The Group plans to further improve its sales network, focusing on second- and third-tier cities in the central and western regions of China with dense populations and enjoying faster economic development, such as Henan, Sichuan, Shanxi, Yunnan, Guizhou, Hubei and Hunan provinces and Chongqing municipality, the key development targets of the Group. Meanwhile, in light of the increasingly popular online consumption pattern, the Group will continue to devote more resources to online media and it is expected that the first phrase of R&D of the O2O platform will be completed by May 2015, upon which the online testing works will commence. The management believes that the business model complemented by online sales will help stimulating the overall sales and further expand the customer base.

The Group is also exploring suitable new brands and new businesses to build a long term horizon and cultivate future growth areas. In addition, the Group plans to place more resources in solidifying its brands in the hope of making breakthroughs in design and functions so as to improve the brand reputation and loyalty. The Group will also closely monitor the production costs and process, and is devoted to improvement in production volume and efficiency.

Relying on its solid foundation with abundant industry experience spanning more than two decades, the Group will continue to improve its operating performance in all directions, and adopt prudent principles of finance management, carefully assess the market situation, actively enhance its strengths and promote sustainable and stable development. The Group will endeavour to strengthen its position as one of the leading multiple brand operators of men's casual footwear and seize the opportunities during the market recovery to achieve long-term and sustainable business development and ultimately create more values for the Shareholders.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2014.

CORPORATE GOVERNANCE CODE

During the year ended 31 December 2014, the Company has complied with all the code provisions of the Corporate Governance Code.

MODEL CODE

Pursuant to a resolution passed by the Board on 4 September 2011, the Company has adopted the Model Code as its own code of conduct for dealing in securities of the Company by the Directors.

Specific enquiries have been made with the Directors, and all Directors confirmed in writing that they have complied with the required standards set out in the Model Code regarding their securities transactions for the year ended 31 December 2014.

SCOPE OF WORK PERFORMED BY AUDITORS

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2014 have been compared by the Company's auditors, KPMG, Certified Public Accountants, to the amounts set out in the Group's draft financial statements for the year and the amounts were found to be in agreement. The work performed by KPMG in this respect was limited and did not constitute an audit, review of other assurance engagement and consequently no assurance has been expressed by the auditors on this announcement.

FINAL DIVIDENDS

The Board does not recommend the payment of a final dividend for the year ended 31 December 2014.

GENERAL

A further announcement in respect of the closure of register of members of the Company for determining the entitlements to attend and vote at the Annual General Meeting will be published by the Company.

A circular containing the information required by the Listing Rules, together with the notice of the Annual General Meeting, will be despatched to the Shareholders in due course.

PUBLICATION OF ANNUAL RESULTS ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This announcement is published on the Company's and the Stock Exchange's websites. The Company's annual report for the year ended 31 December 2014 in accordance with the relevant requirements of the Listing Rules will be dispatched to the Shareholders and published on the Company's and the Stock Exchange's websites in due course.

DEFINITIONS

"Annual General Meeting"	an annual general meeting of the Company to be held in respect of the financial year ended 31 December 2014 or any adjournment thereof
"Articles"	the articles of association of the Company currently in force
"Board"	the board of Directors
"Bonds"	the 7% bonds in the principal amount of HK$5,000,000 each issued by the Company
"Company"	Active Group Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange
"Corporate Governance Code"	Corporate Governance Code contained in Appendix 14 to the Listing Rules
"Directors"	the directors of the Company
"First Debentures"	the debentures with aggregate principal up to HK$100 million issued by the Company
"Group"	the Company and its subsidiaries

"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	The Hong Kong Special Administrative Region of the PRC
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Model Code"	Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules
"O2O"	Online-to-Offline commerce
"OEM"	original equipment manufacturing
"PRC"	the People's Republic of China, and for the purpose of this announcement, excludes Hong Kong, The Macao Special Administrative Region of the PRC and Taiwan
"RMB"	Renminbi, the lawful currency of the PRC
"R&D"	research and development
"Second Debentures"	the debentures with aggregate principal up to HK$200 million issued by the Company
"Share(s)"	ordinary share(s) of HK$0.10 each in the share capital of the Company
"Shareholders"	the shareholders of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subscription Agreements"	the subscription agreements dated 25 July 2014 and 28 July 2014 entered into between each of the subscribers and the Company in respect of the subscription for the Bonds, respectively
"%"	per cent.

By order of the board of
Active Group Holdings Limited

Yau Suk Yan
Company Secretary

Hong Kong, 31 March 2015

As at the date of this announcement, the executive Directors are Ms. Cai Xiuman, Mr. Zhang Wenbin, Mr. Huang Jianren, and Mr. Chen Yuanjian, and the independent non-executive Directors are Mr. Wu Xiaoqiu, Mr. Ye Lin and Mr. Lee Ho Yiu Thomas.