HOSA INTERNATIONAL LIMITED
浩沙國際有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 02200)

2017 INTERIM RESULTS ANNOUNCEMENT

INTERIM RESULTS

The board (the "Board") of directors ("Directors") of Hosa International Limited (the "Company") is pleased to announce the unaudited consolidated financial results of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2017, together with the comparative figures for the six months ended 30 June 2016. These results have been reviewed by the Company's audit committee (the "Audit Committee"), comprising three independent non-executive Directors, namely, Ms. Ko Yuk Lan, Mr. Yao Ge and Mr. He Wenyi. Ms. Ko Yuk Lan is the chairlady of the Audit Committee.

HIGHLIGHTS

- Revenue and gross profit for the six months ended 30 June 2017 were RMB658.8 million and RMB285.7 million, respectively, representing an increase of 0.4% and a decrease of 16.4%, respectively, compared to the same period in 2016.
- Gross profit margin for the six months ended 30 June 2017 was 43.4% (six months ended 30 June 2016: 52.1%).
- Profit before taxation for the six months ended 30 June 2017 was RMB196.4 million, representing a decrease of 6.1% compared to the same period in 2016.
- Profit attributable to equity shareholders of the Company for the six months ended 30 June 2017 was RMB160.8 million, representing a decrease of 4.5% compared to the same period in 2016.
- Basic earnings per share for the six months ended 30 June 2017 was RMB9.6 cents per share.
- The Board proposed to declare an interim dividend of HK3.9 cents (equivalent to approximately RMB3.3 cents) per share for the six months ended 30 June 2017.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2017 – unaudited (Expressed in Renminbi)

		Six months ended 30 June	
		2017	2016
	Note	***RMB'000***	*RMB'000*
Revenue	3	**658,795**	655,923
Cost of sales		**(373,095)**	(314,048)
Gross profit		**285,700**	341,875
Other revenue		**17,193**	27,059
Other net (loss)/income		**(1,061)**	477
Selling and distribution expenses		**(55,553)**	(99,002)
Administrative and other operating expenses		**(43,947)**	(59,816)
Profit from operations		**202,332**	210,593
Finance costs	4(a)	**(5,958)**	(1,472)
Profit before taxation	4	**196,374**	209,121
Income tax	5	**(35,603)**	(40,824)
Profit for the period attributable to equity shareholders of the Company		**160,771**	168,297
Other comprehensive income for the period			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of operations outside the mainland China		**7,474**	(2,599)
Total comprehensive income for the period attributable to equity shareholders of the Company		**168,245**	165,698
Earnings per share (RMB)	6		
Basic		**0.10**	0.10
Diluted		**0.10**	0.10

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2017 – unaudited (Expressed in Renminbi)

	Note	**30 June 2017** *RMB'000*	31 December 2016 *RMB'000*
Non-current assets			
Property, plant and equipment	7	**93,936**	85,299
Lease prepayments	8	**17,114**	17,319
Intangible assets		**984**	513
Deferred tax assets		**604**	3,021
Total non-current assets		**112,638**	106,152
Current assets			
Inventories		**213,135**	220,255
Trade and other receivables	9	**571,156**	421,547
Pledged deposits	10	**314,820**	255,959
Fixed deposits held at banks with maturity over three months	11	**1,388,190**	1,364,266
Cash and cash equivalents	11	**210,585**	88,796
Total current assets		**2,697,886**	2,350,823
Current liabilities			
Trade and other payables	12	**371,461**	236,028
Bank loans	13	**384,634**	320,632
Current taxation		**54,884**	33,346
Total current liabilities		**810,979**	590,006
Net current assets		**1,886,907**	1,760,817
Total assets less current liabilities		**1,999,545**	1,866,969

	Note	30 June 2017 RMB'000	31 December 2016 RMB'000
Non-current liabilities			
Deferred tax liabilities		**8,966**	10,782
Total non-current liabilities		**8,966**	10,782
Net assets		**1,990,579**	1,856,187
Capital and reserves			
Share capital		**13,567**	13,567
Reserves		**1,977,012**	1,842,620
Total equity		**1,990,579**	1,856,187

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2017 – unaudited (Expressed in Renminbi)

	Note	Share capital	Share premium	Capital redemption reserve	Capital reserve	Statutory reserve	Exchange reserve	Other reserve	Share-based compensation reserve *Note14(b)*	Retained earnings	Total
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 1 January 2016		13,494	21,627	29	60	69,572	(8,763)	91,132	5,509	1,518,102	1,710,762
Changes in equity for the six months ended 30 June 2016											
Profit for the period		–	–	–	–	–	–	–	–	168,297	168,297
Other comprehensive income		–	–	–	–	–	(2,599)	–	–	–	(2,599)
Total comprehensive income		–	–	–	–	–	(2,599)	–	–	168,297	165,698
Equity-settled share-based payments	14(b)	–	–	–	–	–	–	–	56	–	56
Share issued on exercise of share options	14(b)	1	275	–	–	–	–	–	(89)	–	187
Dividends approved in respect of the previous year	14(a)(ii)	–	(21,627)	–	–	–	–	–	–	(37,331)	(58,958)
Balance at 30 June 2016		13,495	275	29	60	69,572	(11,362)	91,132	5,476	1,649,068	1,817,745
Balance at 1 July 2016		13,495	275	29	60	69,572	(11,362)	91,132	5,476	1,649,068	1,817,745
Changes in equity for the six months ended 31 December 2016											
Profit for the period		–	–	–	–	–	–	–	–	100,540	100,540
Other comprehensive income		–	–	–	–	–	(11,720)	–	–	–	(11,720)
Total comprehensive income		–	–	–	–	–	(11,720)	–	–	100,540	88,820
Equity-settled share-based payments	14(b)	–	–	–	–	–	–	–	(856)	–	(856)
Share issued on exercise of share options	14(b)	72	13,489	–	–	–	–	–	(4,441)	–	9,120
Dividends approved in respect of the previous period	14(a)(ii)	–	–	–	–	–	–	–	–	(58,642)	(58,642)
Balance at 31 December 2016		13,567	13,764	29	60	69,572	(23,082)	91,132	179	1,690,966	1,856,187

	Note	Share capital RMB'000	Share premium RMB'000	Capital redemption reserve RMB'000	Capital reserve RMB'000	Statutory reserve RMB'000	Exchange reserve RMB'000	Other reserve RMB'000	Share-based compensation reserve Note14(b) RMB'000	Retained earnings RMB'000	Total RMB'000
Balance at 1 January 2017		**13,567**	**13,764**	**29**	**60**	**69,572**	**(23,082)**	**91,132**	**179**	**1,690,966**	**1,856,187**
Changes in equity for the six months ended 30 June 2017											
Profit for the period		–	–	–	–	–	–	–	–	160,771	160,771
Other comprehensive income		–	–	–	–	–	7,474	–	–	–	7,474
Total comprehensive income		–	–	–	–	–	7,474	–	–	160,771	168,245
Equity-settled share-based payments	14(b)	–	–	–	–	–	–	–	115	–	115
Dividends approved in respect of the previous year	14(a)(ii)	–	(13,764)	–	–	–	–	–	–	(20,204)	(33,968)
Balance at 30 June 2017		**13,567**	**–**	**29**	**60**	**69,572**	**(15,608)**	**91,132**	**294**	**1,831,533**	**1,990,579**

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2017 – unaudited (Expressed in Renminbi)

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
Operating activities		
Cash generated from operations	**136,676**	3,745
Income tax paid	**(13,464)**	(15,446)
Net cash generated from/(used in) operating activities	**123,212**	(11,701)
Investing activities		
Increase in pledged deposits	**(58,861)**	(83,830)
Placement of time deposits with original maturity over three months	**(429,924)**	(632,500)
Maturity of time deposits with original maturity over three months	**406,000**	715,000
Other cash inflows arising from investing activities	**17,538**	24,926
Net cash (used in)/generated from investing activities	**(65,247)**	23,596
Financing activities		
Proceeds from bank loans	**130,950**	164,097
Repayments of bank loans	**(61,500)**	(99,396)
Dividends paid to equity shareholders of the Company	**–**	(60,538)
Other cash outflows arising from financing activities	**(5,626)**	(1,107)
Net cash generated from financing activities	**63,824**	3,056
Net increase in cash and cash equivalents	**121,789**	14,951
Cash and cash equivalents at 1 January	**88,796**	21,000
Cash and cash equivalents at 30 June	**210,585**	35,951

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi unless otherwise indicated)

1 BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), including compliance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*, issued by the International Accounting Standard Board ("IASB"). It was authorised for issue on 21 August 2017.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2016 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2017 annual financial statements. Details of any changes in accounting policies are set out in note 2.

The preparation of an interim financial report in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2016 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with International Financial Reporting Standards ("IFRSs").

The interim financial report is unaudited, but has been reviewed by the audit committee of the Company. It has also been reviewed by KPMG 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 ("HKICPA").

The financial information relating to the financial year ended 31 December 2016 that is included in the interim financial report as comparative information does not constitute the Company's statutory annual consolidated financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2016 are available from the Company's principal place of business in Hong Kong. The auditor has expressed an unqualified opinion on those financial statements in their report dated 21 March 2017.

2 CHANGES IN ACCOUNTING POLICIES

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

- *Annual Improvements to IFRSs 2014–2016 Cycle*
- *Amendments to IAS 7, Disclosure initiative*
- *Amendments to IAS 12, Income taxes – Recognition of deferred tax assets for unrealised losses*

None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for current accounting period.

3 REVENUE AND SEGMENT REPORTING

The principal activities of the Group are design, manufacture and wholesale of swimwear and fitness wear by 30 June 2017.

Revenue represents the sales value of goods sold less returns, discounts and value added tax.

Segment information is presented in respect of the Group's business segments. The primary format, business segments, is based on the Group's management and internal reporting structure.

In 2017, the Group's management combined the design, manufacture and wholesales of fitness wear and sports underwear into one segment and streamlined its business into separate segments as follows:

– Design, manufacture and wholesale of swimwear under the brand name of "Hosa" ("Swimwear-Hosa");

– Design, manufacture and wholesale of swimwear under the brand name of "Water Cube" ("Swimwear-Water Cube"); and

– Design, manufacture and wholesale of fitness wear under the brand name of "Hosa" ("Fitness wear – Hosa").

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 period is set out below:

	Swimwear – Hosa	Swimwear – Water Cube	Fitness wear – Hosa	Subtotal of reportable segments	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Six months ended 30 June 2017						
Revenue	**285,050**	**87,463**	**229,515**	**602,028**	**56,767**	**658,795**
Cost of sales	**(153,672)**	**(51,588)**	**(115,427)**	**(320,687)**	**(52,408)**	**(373,095)**
Gross profit	**131,378**	**35,875**	**114,088**	**281,341**	**4,359**	**285,700**
Six months ended 30 June 2016						
Revenue	268,571	100,800	286,552	655,923	–	655,923
Cost of sales	(123,559)	(59,755)	(130,734)	(314,048)	–	(314,048)
Gross profit	145,012	41,045	155,818	341,875	–	341,875

Others mainly represent revenue from sales of fabrics and sales of health products.

The Group's revenue by geographical location is determined by the destination where the goods are delivered.

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
Domestic	**566,310**	607,964
Overseas	**92,485**	47,959
	658,795	655,923

The Group has five customers (six months ended 30 June 2016: three customers) with whom transactions have exceeded 10% of the Group's revenue for the period ended 30 June 2017. The amount of sales to five customers amounted to approximately RMB388,296,000 for six months ended 30 June 2017 (six months ended 30 June 2016: RMB298,532,000).

4 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

		Six months ended 30 June	
		2017	2016
		RMB'000	*RMB'000*
(a)	Finance costs:		
	Interest on borrowings	**5,958**	1,472
(b)	Staff costs:		
	Contributions to defined contribution retirement plans	**1,023**	1,013
	Equity-settled share-based payment expenses	**115**	56
	Salaries, wages and other benefits	**42,283**	48,828
		43,421	49,897
(c)	Other items:		
	Amortisation of intangible assets and lease prepayments	**381**	443
	Depreciation	**3,972**	4,715
	Operating lease charges in respect of properties	**3,283**	3,232
	Interest income	**(16,756)**	(21,238)
	Research and development costs *(note (i))*	**22,246**	38,940
	Cost of inventories *(note (ii))*	**373,095**	314,048

Notes:

(i) Research and development costs for the period ended 30 June 2017 include staff costs of employees in the design, research and development department of RMB4,576,000 (six months ended 30 June 2016: RMB6,614,000), which are also included in the staff costs as disclosed in note 4(b).

(ii) Cost of inventories for the period ended 30 June 2017 includes RMB23,832,000 (six months ended 30 June 2016: RMB29,004,000) relating to staff costs, depreciation and amortisation expenses, which amount is included in the respective total amounts disclosed separately above in notes 4(b) and (c) for each of these types of expenses.

5 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
Current tax – PRC income tax		
Provision for the period	**27,802**	31,945
PRC dividend withholding tax *(note (iv))*	**7,200**	8,300
Deferred tax		
Reversal of temporary differences	**2,417**	579
Reversal of dividends withholding tax	**(1,816)**	–
	35,603	40,824

(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.

No provision was made for Hong Kong Profits Tax as the Group did not earn any assessable profit subject to Hong Kong Profits Tax for the six months ended 30 June 2017 and 2016.

(ii) According to the PRC Corporate Income Tax ("CIT") Law that took effect on 1 January 2008, the statutory income tax rate of the Group's subsidiaries in mainland China Haosha Industry (Fujian) Co., Ltd. ("Haosha Industry") and Haosha Industry (Datian) Co., Ltd. ("Haosha Industry (Datian)") is 25%.

In accordance with the CIT Law, its implementation rules and the relevant regulations, Haosha Industry was granted the High and New Technology Enterprise Status ("HNTE")in 2013 for a valid period of 3 years from 2013 to 2015 which entitles Haosha Industry to a reduced income tax rate at 15% during the valid period under the CIT Law and its relevant regulations, Haosha Industry successfully renewed the HNTE qualification on 1 December 2016 and continues to enjoy a preferential income tax rate of 15% for another three years from 2016 to 2018.

(iii) According to the PRC CIT Law and its implementation rules, dividends receivable by non-PRC corporate residents from PRC enterprises which are earned since 1 January 2008 are subject to withholding tax at a rate of 10%, unless reduced by tax treaties or arrangements. Under the Sino-Hong Kong Double Tax Arrangement, a qualified Hong Kong tax resident will be liable for withholding tax at the rate of 5% for dividend income derived from the PRC if the Hong Kong tax resident is the "beneficial owner" and holds 25% or more of the equity interests of the PRC Company.

As at the date of the interim financial report, the Group had not yet obtained the certificates of Hong Kong tax residents from the Inland Revenue Department of Hong Kong. Therefore, the Group is applicable to the withholding tax rate of 10%.

The Directors of the Group have determined that in determining the amounts of dividends to be distributed from PRC subsidiaries to the Hong Kong incorporated subsidiary in future, the amounts of dividends declared or to be declared by the Company would be considered. As at 30 June 2017, the Directors of the Group determined that the estimated dividends to be distributed will not be greater than RMB89,660,000 (31 December 2016: RMB107,820,000) in the foreseeable future.

(iv) PRC dividend withholding tax represents tax charged by the PRC tax authority on dividends distributed by the Group's PRC subsidiaries during the period.

6 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB160,771,000 (six months ended 30 June 2016: RMB168,297,000) and the weighted average of 1,667,276,000 ordinary shares (six months ended 30 June 2016: 1,657,433,000 ordinary shares) in issue during the interim period.

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB160,771,000 (six months ended 30 June 2016: RMB168,297,000) and the weighted average number of ordinary shares of 1,667,359,000 (six months ended 30 June 2016: 1,663,141,000 shares), are as follows:

Weighted average number of ordinary shares (diluted)

	Six months ended 30 June	
	2017	2016
	'000	*'000*
Weighted average number of ordinary shares	**1,667,276**	1,657,433
Effect of deemed issue of shares under the Company's share option scheme for nil consideration	**83**	5,708
Weighted average number of ordinary shares (diluted)	**1,667,359**	1,663,141

7 PROPERTY, PLANT AND EQUIPMENT

	2017	2016
	RMB'000	*RMB'000*
Net book value, as at 1 January	**85,299**	79,939
Additions	**12,802**	14,388
Disposals (net carrying amount)	**(193)**	–
Depreciation charge for the period/year	**(3,972)**	(9,028)
Net book value, as at 30 June/31 December	**93,936**	85,299

8 LEASE PREPAYMENTS

As at 30 June 2017, the Group's interests in leasehold land are held on a medium-term lease of 50 years in the PRC. As at 30 June 2017, the Group was in the process of obtaining the land use right certificate in respect of a parcel of leasehold land in the PRC with net book value of RMB6,583,300 (31 December 2016: RMB6,669,000).

9 TRADE AND OTHER RECEIVABLES

	30 June 2017 *RMB'000*	31 December 2016 *RMB'000*
Trade receivables	**504,160**	354,594
Less: allowance for doubtful debts	**–**	–
Trade receivables, net of allowance for doubtful debts	**504,160**	354,594
Deposits and prepayments	**36,826**	40,430
Other receivables	**30,170**	26,523
	571,156	421,547

All of the trade and other receivables are expected to be recovered or recognised as expense within one year.

The Group accepts bank and commercial acceptance bills for settlement of trade receivables. As at 30 June 2017, outstanding bank and commercial acceptance bills in the amount of RMB237,549,000 (31 December 2016: RMB401,490,000) have been discounted to the banks. As these bills have been discounted without recourse, the Group has derecognised these outstanding bills as receivables as at 30 June 2017.

As of the end of reporting period, the ageing analysis of trade receivables (which are included in trade and other receivables), based on the invoice date and net of allowance for doubtful debts, is as follows:

	30 June 2017 *RMB'000*	31 December 2016 *RMB'000*
Within 1 month	**201,521**	91,746
More than 1 month but within 3 months	**243,474**	168,628
More than 3 months but within 6 months	**43,810**	78,779
More than 6 months but within 1 year	**14,078**	13,037
More than 1 year	**1,277**	2,404
	504,160	354,594

10 PLEDGED DEPOSITS

	30 June 2017 *RMB'000*	31 December 2016 *RMB'000*
Amount pledged as security for bank loans *(note 13)*	**216,220**	207,800
Amount pledged as security for bills payable *(note 12)*	**98,600**	48,159
	314,820	255,959

The pledged deposits are expected to be released upon the settlement of the relevant bank loans and bills payable within 12 months.

11 CASH AND CASH EQUIVALENTS AND FIXED DEPOSITS HELD AT BANKS

	30 June 2017 *RMB'000*	31 December 2016 *RMB'000*
Fixed deposits held at banks with maturity over three months	**1,388,190**	1,364,266
Cash and cash equivalents in the consolidated statement of financial position and the condensed consolidated cash flow statement	**210,585**	88,796
	1,598,775	1,453,062

Cash and cash equivalents represent cash at bank and in hand as at the end of the reporting period.

12 TRADE AND OTHER PAYABLES

	30 June 2017 *RMB'000*	31 December 2016 *RMB'000*
Trade payables	**51,748**	20,052
Bills payable	**178,659**	124,098
Receipts in advance	**705**	1,455
Amounts due to the immediate controlling party	**52,075**	53,671
Dividends payable	**33,294**	12
Other payables and accruals	**54,980**	36,740
	371,461	236,028

Bills payable as at 30 June 2017 and 31 December 2016 were secured by pledged bank deposits (see note 10).

All of the trade and other payables are expected to be settled or recognised as income within one year or are repayable on demand.

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

	30 June 2017 *RMB'000*	31 December 2016 *RMB'000*
Within 1 month	**68,997**	51,296
More than 1 month but within 3 months	**75,232**	15,750
More than 3 months but within 6 months	**79,801**	70,697
More than 6 months	**6,377**	6,407
	230,407	144,150

13 BANK LOANS

As at 30 June 2017, the bank loans were repayable within 12 months. The bank loans were secured or guaranteed as follows:

	30 June 2017	31 December 2016
	RMB'000	*RMB'000*
Secured by pledged bank deposits	**201,184**	206,632
Guaranteed by a key management personnel	**14,000**	14,000
Unsecured	**169,450**	100,000
	384,634	320,632

14 CAPITAL, RESERVES AND DIVIDENDS

(a) Dividends

(i) Dividends payable to equity shareholders attributable to the interim period

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
Interim dividend declared and paid after the interim period of HK3.9 cents per share (2016: HK4.2 cents per share)	**56,270**	59,554

The interim dividend has not been recognised as a liability at the end of the reporting period.

(ii) Dividends payable to equity shareholders attributable to the previous financial year, approved during the interim period

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
Final dividend in respect of the previous financial year, approved during the following interim period of HK2.3 cents per share (2015: HK2.2 cents per share)	**33,968**	30,883
Special dividend in respect of the previous financial year, approved during the following interim period of HK Nil cents per share (2015: HK2.0 cents per share)	**–**	28,075
	33,968	58,958

(b) Equity settled share-based transactions

The Company has two share option schemes, namely, a Pre-IPO Employee Share Option Scheme (the "Pre-IPO Share Option Scheme") and a Share Option Scheme (the "Share Option Scheme"), which were adopted on 23 November 2011.

On 1 April 2016, 1,500,000 share options were granted for a consideration of HK$1 to Mr. Lui Wai Ming, an executive director and chief financial officer of the Company under the Share Option Scheme. Each option gives the holder the right to subscribe for one ordinary share of the Company. 30% of these share options will vest on second anniversary of the date of grant, 30% of these share options will vest on third anniversary of the date of grant, and 40% of these share options will vest on fourth anniversary of the date of grant, with an exercise period of 5 years from the date of grant. The exercise price is HK$2.37 per share, which represents the highest of: (1) the nominal value of a share; (2) the closing price of HK$2.22 per share as stated in the daily quotation sheets issued by the Stock Exchange on the date of grant; and (3) the average closing price of HK$2.37 per share as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the date of grant.

Details of the number and weighted average exercise price of share options granted under these two share option schemes during the period are as follows:

	Pre-IPO Share Option Scheme		Share Option Scheme	
	Exercise price	**No. of options**	**Exercise price**	**No. of options**
Outstanding at 1 January 2016	HK$1.28	11,415,000	–	–
Exercised during the period	HK$1.28	(174,000)	–	–
Granted during the period	–	–	HK$2.37	1,500,000
Outstanding at 30 June 2016 and 1 July 2016	HK$1.28	11,241,000	HK$2.37	1,500,000
Exercised during the period	HK$1.28	(8,221,000)	–	–
Expired during the period	HK$1.28	(3,020,000)	–	–
Outstanding at 31 December 2016	–	–	HK$2.37	1,500,000
Outstanding at 1 January 2017	–	–	HK$2.37	1,500,000
Outstanding at 30 June 2017	–	–	HK$2.37	1,500,000

15 COMMITMENTS

(a) Operating leases

As at 30 June 2017, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	30 June 2017	31 December 2016
	RMB'000	*RMB'000*
Within 1 year	**5,346**	5,624
After 1 year but within 5 years	**8,948**	11,500
	14,294	17,124

(b) Capital Commitments

Capital commitments outstanding at 30 June 2017 not provided for in the interim financial report were as follows:

	30 June 2017 *RMB'000*	31 December 2016 *RMB'000*
Contracted for	**1,775**	2,400
Authorised but not contracted for	**11,000**	12,200
	12,775	14,600

16 MATERIAL RELATED PARTY TRANSACTIONS

During the six months ended 30 June 2017, the directors are of view that the followings are related parties of the Group:

Name of party	**Relationship**
Fujian Province Jinjiang City Haosha Garments Co., Ltd* ("Haosha Garments")	75% and 25% owned by Mr. Shi Hongliu and Mr. Shi Hongyan respectively
Ho Born Investment Holdings Limited ("Ho Born Investment")	49.85% and 26.23% owned by Mr. Shi Hongliu and Mr. Shi Hongyan respectively
Quanzhou Hosa Fitness Club Co., Ltd.* ("Quanzhou Hosa Fitness")	60% and 40% owned by Mr. Shi Hongliu and Mr. Shi Hongyan respectively

* The English translation of the company's name is for reference only. The official name of the company is in Chinese.

(a) Transactions with related parties

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
Receiving processing services		
– Haosha Garments	**25,820**	26,728
Purchase of materials		
– Haosha Garments	**2,333**	–
Sales of goods		
– Quanzhou Hosa Fitness	**1,343**	–

(b) Balances with related parties

As at 30 June 2017, the Group had the following balances with related parties:

	30 June	31 December
	2017	2016
	RMB'000	*RMB'000*
Trade payables		
– Haosha Garments	**(1,160)**	–
Prepayments		
– Haosha Garments	**–**	767
Bills payable		
– Haosha Garments	**(16,543)**	(2,000)
Amounts due to the immediate controlling party		
– Ho Born Investment	**(52,075)**	(53,671)
Trade receivables		
– Quanzhou Hosa Fitness	**1,571**	–
	(68,207)	(54,904)

The amounts due to related parties are unsecured, interest free and are expected to be paid within one year.

17 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE SIX MONTHS ENDED 30 JUNE 2017

A number of amendments and new standards are effective for annual periods beginning after 1 January 2017 and earlier application is permitted; however, the group has not early adopted any new or amended standards in preparing this interim financial report.

The group has the following updates to the information provided in the last annual financial statements about the possible impacts of the new standards issued but not yet effective which may have a significant impact on the group's consolidated financial statements.

IFRS 9, Financial instruments

IFRS 9 will replace the current standard on accounting for financial instruments, IAS 39, Financial instruments: Recognition and measurement. IFRS 9 introduces new requirements for classification and measurement of financial assets, calculation of impairment of financial assets and hedge accounting. On the other hand, IFRS 9 incorporates without substantive changes the requirements of IAS 39 for recognition and derecognition of financial instruments and the classification of financial liabilities. Expected impacts of the new requirements on the Group's financial statements are as follows:

(a) Classification and measurement

IFRS 9 contains three principal classification categories for financial assets: measured at (1) amortised cost, (2) fair value through profit or loss (FVTPL) and (3) fair value through other comprehensive income (FVTOCI) as follows:

- The classification for debt instruments is determined based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the asset. If a debt instrument is classified as FVTOCI then effective interest, impairments and gains/losses on disposal will be recognised in profit or loss.

- For equity securities, the classification is FVTPL regardless of the entity's business model. The only exception is if the equity security is not held for trading and the entity irrevocably elects to designate that security as FVTOCI. If an equity security is designated as FVTOCI then only dividend income on that security will be recognised in profit or loss. Gains, losses and impairments on that security will be recognised in other comprehensive income without recycling.

Based on the Group's financial instruments as at 30 June 2017, the Group expects that its financial assets/liabilities currently measured at amortised cost will continue with their respective classification and measurements upon the adoption of IFRS 9.

(b) Impairment

The new impairment model in IFRS 9 replaces the "incurred loss" model in IAS 39 with an "expected credit loss" model. Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognised. Instead, an entity is required to recognise and measure expected credit losses as either 12-month expected credit losses or lifetime expected credit losses, depending on the asset and the facts and circumstances. This new impairment model may result in an earlier recognition of credit losses on the Group's trade receivables and other financial assets. However, a more detailed analysis is required to determine the extent of the impact.

The Group does not plan to adopt IFRS 9 before its effective date of 1 January 2018.

IFRS 15, Revenue from contracts with customers

IFRS 15 establishes a comprehensive framework for recognising revenue from contracts with customers. IFRS 15 will replace the existing revenue standards, IAS 18, Revenue, which covers revenue arising from sale of goods and rendering of services, and IAS 11, Construction contracts, which specifies the accounting for revenue from construction contracts. The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer

- Step 2: Identify the performance obligations in the contract

- Step 3: Determine the transaction price

- Step 4: Allocate the transaction price to the performance obligations in the contract

- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. IFRS 15 identifies 3 situations in which control of the promised good or service is regarded as being transferred over time:

(a) When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

(b) When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;

(c) When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under IFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that will be considered in determining when the transfer of control occurs. Furthermore, extensive disclosures are required by IFRS 15.

The Group has preliminarily assessed the impact of IFRS 15, and consider the requirements to recognise revenue under IFRS 15 is similar to the Group's current revenue recognition policy for sales of goods and therefore, the Group expects that the application of IFRS 15 will not have a significant impact on the Group's results of operations and financial position.

The Group does not plan to adopt IFRS 15 before its effective date of 1 January 2018.

IFRS 16, Leases

Currently the Group enters into some leases as the lessee. Once IFRS 16 is adopted, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

IFRS 16 will primarily affect the group's accounting as a lessee of leases for properties, plant and equipment which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease. At 30 June 2017 the group's future minimum lease payments under non-cancellable operating leases amount to RMB14,294,000 for properties, the majority of which is payable either between 1 and 5 years after the reporting date or in more than 5 years. Some of these amounts may therefore need to be recognised as lease liabilities, with corresponding right-of-use assets, once IFRS 16 is adopted. The group will need to perform a more detailed analysis to determine the amounts of new assets and liabilities arising from operating lease commitments on adoption of IFRS 16, after taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of IFRS 16 and the effects of discounting.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. The group has decided not to early adopt IFRS 16 in its 2018 consolidated financial statements.

MANAGEMENT DISCUSSION AND ANALYSIS

1 MARKET OVERVIEW

In recent years, the State Council issued a number of policies, proposing vigorous efforts in developing mass sports programs, advocating a new trend of comprehensive fitness and promoting the establishment of Healthy China. The plan stated that, by 2020, the number of people who frequently do exercise will reach 435 million, and the total scale of sports consumption will reach RMB1.5 trillion. National fitness will promote industrial development, and form new economic growth driver. The promising development trend of the sports and health industry creates favourable external conditions for the Group, which possesses competitive resources of the related industry, to implement the strategy of sports health industry and the successful transformation and upgrade.

In the first half of 2017, the gross domestic product ("GDP") increased by 6.9%, representing an increase as compared with the increase of 6.7% of last year. Domestic online retail business continued to grow rapidly, the national online retail sales had reached RMB3.1 trillion in the first half of the year, representing a year-on-year increase of 33.4%. The growth in the national online retail sales exceeds the overall growth of the consumer market. The change in the market environment drives the Group to re-examine the strategic planning of distribution channels and retail outlets.

2 BUSINESS HIGHLIGHTS

In the first half of 2017, the Group continued to actively promote innovations in respect of branding, sales channels and retail outlets and the transformation and upgrade of the enterprise. Although there was a decline in net profit as compared with the same period of last year, the operating condition was still healthy in general and the risks remained controllable, which are in line with the expectation on the fluctuating performance of the Group during the stage of transformation and upgrade. The strategy of sports health industry has been implemented, which provides the Group with a greater room for development.

The Group's revenue for the first half of 2017 amounted to RMB658.8 million (2016: RMB655.9 million), representing an increase of 0.4% as compared with the same period of last year. The profit for the year attributable to the shareholders of the Group amounted to RMB160.8 million (2016: RMB168.3 million), representing a decrease of 4.5% as compared with the same period of last year.

(a) Products

Currently, the Group's main products are indoor sportswear, including fitness wear and swimwear. Others includes revenue from sales of fabric and health products. Focusing on the sports and fitness demand of the target users, the Group will continue to optimise its product structure. For the six months ended 30 June 2017, the Group's fitness wear, swimwear and others achieved an operating income of RMB229.5 million, RMB372.5 million and RMB56.8 million respectively (2016: RMB286.6 million, RMB369.4 million and RMB nil respectively). Revenue from sales of fitness wear and swimwear were decreased by 20.0% and increased by 0.9% respectively as compared to the same period last year.

(b) Branding

In order to meet the multi-faceted demand from both the sports and healthy communities, the Group currently possesses two brands of products, namely Hosa and Water Cube. In the first half of 2017, as the titled sponsor of the Fédération Internationale de Natation Association ("FINA") 10 km Marathon Swimming World Cup, and Diving Series as well as the global partner of FINA, the Group continued to sponsor the 10 km Marathon Swimming World Cup and the diving tournament of FINA World Cup. The Group also continued to ramp up the promotion of and develop the independent sale channels for Water Cube brand apparel, and by leveraging its brand influence, high professional standard and price-performance ratio, the Group continued to expand sales in the mass swimwear market. For the six months ended 30 June 2017, the Hosa brand apparel's revenue amounted to RMB514.6 million (2016: RMB555.1 million), representing an decrease of 7.3% as compared with the same period in 2016, while the Water Cube brand apparel's revenue amounted to RMB87.5 million (2016: RMB100.8 million), representing an decrease of 13.2% as compared with the same period in 2016.

(c) Channels and Sales Outlets

In the first half of 2017, the Group strengthened the existing offline retail outlets. At the same time, the Group improved the cooperation model with distributors by giving distributors a higher level of flexibility in marketing activities to respond to market changes in a more rapid manner. In addition,the Group will actively promote "Hosa new retail" to integrate online and offline resources and sufficiently explore opportunities for "Internet +". The Group is making proactive efforts in implementing cooperation with upstream and downstream enterprises in the industry (including mobile applications for sports and health).

(d) Marketing and Consumer Relations

Focusing on promoting the lifestyle as being natural, joyful and healthy through the participation in sports, the Group continued to carry out accurate and effective brand promotion and marketing campaigns which focused on its target customers, and brought about delightful and pleasant experience in sports and healths to its consumers. In the first half of 2017, other than the continuous promotion and development of national fitness, the Group also actively sponsored adolescents swimming competitions to nurture talented sports players and athletes for the country, while fulfilling its social responsibilities by enhancing the physical health and health awareness of adolescents and improving the health of national citizens.

In the first half of 2017, the Company continuously devoted more efforts in the sponsorships of professional swimming competitions, such as the "Hosa Cup" National Sports Academy Swimming Championships, the National Swimming Championships, the "Hosa Cup" Adolescents Swimming Championships in various provinces and cities, titled sponsorships for "Hosa Cup" Youth Diving Championships and other sports programs, as its key focus in supporting adolescents' sports development. As the titled sponsor of the Fédération Internationale de Natation Association ("FINA") 10 km Marathon Swimming World Cup, and Diving Series as well as the global partner of FINA, the Group continued to sponsor the 10 km Marathon Swimming World Cup and the diving tournament of FINA World Cup. The Group sponsored nearly ten provincial swimming teams and all swimming contests of certain provinces, creating the professional image and strategic value of the brand of Hosa in the field of professional fitness.

The above promotional events received satisfactory response in the market. The brand influence and professional status of Hosa were also effectively promoted.

(e) Product Research and Development

Equipped with nearly 20 years of experience in indoor sportswear research and development, rich professional knowledge and technological build-up, the Group has established a seasoned research and development team for indoor sports apparel that is familiar with the demand of indoor sportswear in China's consumer market. The Group has created a globalized and professional research and development system formed by domestic and foreign professional cooperating institutions including Hosa International Beijing Design Centre, Hosa International Fujian Technology Centre, French Design Studio, function and prototype expert team from Japan as well as The Asian Fitness Academy, which enabled the Group to continuously enhance its competitive strengths in terms of the professional design, fashion design, functional development and technology of indoor sportswear and thus maintained the market competitive edge of the Group's products. In 2014, Hosa obtained the certification for competition swimwear of FINA, in which Hosa is the only enterprise obtained such certification in the PRC up to now.

3 FINANCIAL REVIEW

Revenue

Revenue of the Group for the six months ended 30 June 2017 was RMB658.8 million, representing an increase of 0.4% as compared to the revenue for the six months ended 30 June 2016 of RMB655.9 million. The following table sets forth the sources of the Group's revenue by operating segments in its operations:

	Six months ended 30 June			
	2017		2016	
	RMB'000	*%*	*RMB'000*	*%*
Domestic sales				
Swimwear – Hosa	**195,014**	**29.6**	220,913	33.7
Swimwear – Water Cube	**87,463**	**13.3**	100,800	15.4
Fitness wear – Hosa	**228,312**	**34.7**	286,251	43.6
Others	**55,521**	**8.4**	–	–
Subtotal	**566,310**	**86.0**	607,964	92.7
Overseas sales				
Swimwear – Hosa	**90,036**	**13.6**	47,658	7.2
Fitness wear – Hosa	**1,203**	**0.2**	301	0.1
Others	**1,246**	**0.2**	–	–
Subtotal	**92,485**	**14.0**	47,959	7.3
Total	**658,795**	**100.0**	655,923	100.0

Domestic sales decreased from RMB608.0 million for the six months ended 30 June 2016 to RMB566.3 million for the six months ended 30 June 2017, representing a decrease of 6.9%. Overseas sales increased from RMB48.0 million for the six months ended 30 June 2016 to RMB92.5 million for the six months ended 30 June 2017, representing an increase of 92.8%. China's domestic market remained the largest market of the Group.

Cost of sales

The Group's cost of sales primarily consisted of production costs and procurement costs of finished products from external sources. Production costs include raw material costs, labor costs as well as manufacturing overhead incurred in the production. The following table sets forth a breakdown of the Group's cost of sales for its products:

	Six months ended 30 June			
	2017		2016	
	RMB'000	*%*	*RMB'000*	*%*
Raw materials	**292,874**	**78.5**	243,449	77.5
Labor	**34,350**	**9.2**	27,839	8.9
Manufacturing overhead	**12,237**	**3.3**	10,968	3.5
Procurement costs of finished products	**33,634**	**9.0**	31,792	10.1
	373,095	**100.0**	314,048	100.0

Raw material costs primarily refer to the costs of procuring raw materials used in the production of products of the Group, such as fabrics, threads and ancillary clothing materials.

Certain production and processing steps of products of the Group, primarily fabric manufacturing, fabric printing and dyeing, and fabric cutting, sewing and stitching, are outsourced to external contract manufacturers. The Group provides fabric materials to contract manufacturers for processing and pays outsourced processing and service fees. Such outsourced processing and service fees are categorized under the Group's raw material costs. Labor costs consisted of salaries, benefits and other compensation paid to the employees of the Group. Manufacturing overhead mainly includes depreciation of production facilities, costs associated with operating the Group's facilities including electricity, water and maintenance costs etc. The following table sets forth a breakdown of the Group's cost of sales by product:

	Six months ended 30 June			
	2017		2016	
	RMB'000	*%*	*RMB'000*	*%*
Swimwear – Hosa	**153,672**	**41.2**	123,559	39.3
Swimwear – Water Cube	**51,588**	**13.8**	59,755	19.1
Fitness wear – Hosa	**115,427**	**30.9**	130,734	41.6
Others	**52,408**	**14.1**	–	–
	373,095	**100.0**	314,048	100.0

Gross profit

Gross profit of the Group for the six months ended 30 June 2017 was RMB285.7 million, representing a decrease of 16.4% as compared to that of the six months ended 30 June 2016 of RMB341.9 million. Gross profit margin of the Group for the six months ended 30 June 2017 was 43.4% (six months ended 30 June 2016: 52.1%). The decrease in gross profit margin was mainly due to the change in cooperation model with distributors, which led to decrease in selling prices of the Group's products.

The following table sets forth the Group's gross profit by operating segments in its operations:

	Six months ended 30 June			
	2017		2016	
	Gross Profit	**Gross Profit Margin**	Gross Profit	Gross Profit Margin
	RMB'000	***%***	*RMB'000*	*%*
Domestic sales				
Swimwear – Hosa	**96,225**	**49.3**	126,216	57.1
Swimwear – Water Cube	**35,875**	**41.0**	41,045	40.7
Fitness wear – Hosa	**113,563**	**49.7**	155,700	54.4
Others	**4,210**	**7.6**	–	–
Subtotal	**249,873**	**44.1**	322,961	53.1
Overseas sales				
Swimwear – Hosa	**35,153**	**39.0**	18,796	39.4
Fitness wear – Hosa	**525**	**43.6**	118	39.2
Others	**149**	**12.0**	–	–
Subtotal	**35,827**	**38.7**	18,914	39.4
Total	**285,700**	**43.4**	341,875	52.1

Other revenue

Other revenue of the Group primarily consisted of government grants and interest income from interest-bearing bank deposits. Government grants were provided by provincial or prefectural government authorities in the form of unconditional subsidies as recognition for the contribution of the Group to the local economy through its business operation and its achievements as one of the core enterprises in the local industry. Other revenue decreased from RMB27.1 million for the six months ended 30 June 2016 to RMB17.2 million for the six months ended 30 June 2017, representing a decrease of 36.5%.

Selling and distribution expenses

Selling and distribution expenses consisted primarily of advertising and promotion expenses, remuneration and employee benefits for the Group's sales and marketing personnel, rental expenses, packaging and transportation expenses, depreciation and amortisation expenses of the Group's properties used for sales and marketing activities and other miscellaneous expenses. Advertising and promotion expenses mainly include fees paid for sponsorship and television, magazine and billboard advertisements. Selling and distribution expenses decreased from RMB99.0 million for the six months ended 30 June 2016 to RMB55.6 million for the six months ended 30 June 2017, representing an decrease of 43.9%. Selling and distribution expenses represented approximately 8.4% of total revenue for the six months ended 30 June 2017, which was lower than the proportion for the six months ended 30 June 2016 of 15.1%. The decrease in selling and distribution expenses was mainly due to the change in cooperation model with distributors.

Administrative and other operating expenses

Administrative and other operating expenses primarily consisted of remuneration and employee benefits for the Group's administrative staff, travel expenses, general office expenses, and other miscellaneous expenses. Administrative and other operating expenses decreased from RMB59.8 million for the six months ended 30 June 2016 to RMB43.9 million for the six months ended 30 June 2017, representing a decrease of 26.6%. Administrative and other operating expenses represented approximately 6.7% of total revenue for the six months ended 30 June 2017, which was lower than the proportion for the six months ended 30 June 2016 of 9.1%.

Finance costs

Finance costs of the Group primarily consisted of interest charged to the Group's interest-bearing bank borrowings. Total finance costs increased from RMB1.5 million for the six months ended 30 June 2016 to RMB6.0 million for the six months ended 30 June 2017, representing an increase of 304.8%.

Profit for the period and dividend

The profit for the six months ended 30 June 2017 decreased by 4.5% to RMB160.8 million as compared with RMB168.3 million for the six months ended 30 June 2016. Total comprehensive income for the six months ended 30 June 2017 increased by 1.5% to RMB168.2 million as compared with RMB165.7 million for the six months ended 30 June 2016. Final dividend of HK2.3 cents per share for the financial year of 2016 had been proposed and approved on 28 April 2017.

Key financial ratios

The following table sets forth certain of major financial ratios of the Group:

	Six months ended 30 June	
	2017	2016
Current ratio	**3.33 times**	4.66 times
Quick ratio	**3.06 times**	4.07 times
Inventory turnover days	**104.5 days**	153.3 days
Debtors' turnover days	**117.3 days**	81.6 days
Creditors' turnover days	**90.4 days**	111.8 days
Gearing ratio	**13.7%**	8.6%

Working capital and working capital management

The inventory turnover days of the Group were 104.5 days for the six months ended 30 June 2017 as compared to 153.3 days for the six months ended 30 June 2016. The Group's debtors' turnover days were 117.3 days for the six months ended 30 June 2017 as compared to 81.6 days for the six months ended 30 June 2016. The Group generally allowed a credit period of 90 days to 180 days to customers. The Group's creditors' turnover days were 90.4 days for the six months ended 30 June 2017 as compared to 111.8 days for the six months ended 30 June 2016. The overall working capital cycle has been increased from 123.1 days to 131.4 days. The overall operation remained at a normal level.

Liquidity, financial resources and capital structure

As at 30 June 2017, the Group had net current assets of RMB1,886.9 million (31 December 2016: RMB1,760.8 million), of which cash and bank deposits were RMB1,913.6 million (31 December 2016: RMB1,709.0 million). Total bank borrowings as at 30 June 2017 was RMB384.6 million (31 December 2016: RMB320.6 million) while the amount of bills payable was RMB178.7 million (31 December 2016: RMB124.1 million). Bank borrowings and bills payable were mainly used for working capital management, financing the purchases of the Group and financing the dividend paid to the Sharesholders. The Group's gearing ratio as at 30 June 2017 (total bank borrowings divided by total assets) was 13.7% (31 December 2016: 13.0%). The Group's transactions and the monetary assets are principally denominated in Renminbi. 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 the six months ended 30 June 2017. The Group adopts centralized financing and treasury policies in order to ensure the Group's funding is utilized efficiently. Prudent approach is adopted in monitoring foreign exchange exposure and interest rate risk. The Group's liquidity position remains healthy and is capable of meeting its working capital requirements. This strong cash position enables the Group to identify and grasp investment and business development opportunities when expanding its market share in China.

Use of Proceeds – Initial Public Offering

The shares of the Company were listed on the main board of the Stock Exchange on 16 December 2011 with net proceeds from the global offering of approximately RMB488.6 million (after deducting underwriting commissions and related expenses). The amount utilized as of 30 June 2017 was as follows:

			As at 30 June 2017	
Purposes of net proceeds	**Percentage**	**Amount of net proceeds** *(RMB million)*	**Amount utilized** *(RMB million)*	**Remaining balance** *(RMB million)*
1. Expansion of distribution network	35%	171.0	171.0	–
2. Enhancement of brand image through marketing and promotion	25%	122.1	122.1	–
3. Expansion of production capacity	15%	73.3	7.0	66.3
4. Investment in research, design and development activities	10%	48.9	48.9	–
5. Developing and upgrading of supply chain and information management systems	5%	24.4	–	24.4
6. Funding for working capital and other general corporate purposes	10%	48.9	48.9	–
	100%	488.6	397.9	90.7

The Company does not intend to apply the remaining net proceeds for purposes other than those disclosed in the prospectus of the Company dated 6 December 2011.

Use of Proceeds – Share Placements

On 17 September 2013, Ho Born Investment Holdings Limited ("Ho Born"), the Company and Goldman Sachs (Asia) L.L.C., as the placing agent, entered into a placing and subscription agreement, pursuant to which the placing agent agreed to procure purchasers to subscribe for 54,500,000 existing shares owned by Ho Born to not fewer than six independent placees at the placing price of HK$2.85 per share, and Ho Born conditionally agreed to subscribe for, and the Company agreed to allot and issue to Ho Born, such number of subscription shares which is equivalent to the number of shares actually placed under the placing at the subscription price of HK$2.85 per share. Details of these transactions are set out in the Company's announcement dated 17 September 2013.

Approximately RMB116.9 million (after deducting underwriting commissions and related expenses) was raised from the subscription. The amount utilized as of 30 June 2017 was as follows:

Purposes of net proceeds	**Percentage**	**Amount of net proceeds** *(RMB million)*	**As at 30 June 2017** **Amount utilized** *(RMB million)*	**As at 30 June 2017** **Remaining balance** *(RMB million)*
1. Advertising and promotion	30%	35.0	35.0	–
2. Expansion of production capacity	15%	17.5	–	17.5
3. Investment in research,design and development activities	40%	46.9	46.9	–
4. Funding for working capital	15%	17.5	17.5	–
	100%	116.9	99.4	17.5

The Company does not intend to apply the remaining net proceeds for the purposes other than those disclosed in the announcement of the Company dated 17 September 2013.

The Company has not conducted any equity fund raising activities in the past 12 months from the date of this announcement.

Capital expenditure and capital commitments

The capital expenditure during the six months ended 30 June 2017 was approximately RMB2.4 million. As at 30 June 2017, the capital commitment amounted to approximately RMB12.8 million.

Foreign exchange risk management

Most of the sales and purchases of the Group are settled in Renminbi, which is not freely convertible into foreign currencies. The fluctuation of Renminbi during the first half of 2017 did not have any significant adverse effect on the Group's results. The Group is not exposed to any significant foreign exchange risk. Besides, the Group will conduct periodic review of its exposure to foreign exchange risk.

Contingent Liabilities

As at 30 June 2017, the Group had no material contingent liabilities.

Employees and Remuneration Policies

As at 30 June 2017, the Group had a workforce of approximately 1,300 people. Salaries of employees are maintained at a competitive level and are reviewed annually, with close reference to the relevant labour market and economic situation. The Group has adopted share option schemes whereby employees of the Group are granted options to acquire shares in the Company. A sound relationship has been maintained between the Group and its employees. The Group has also provided internal training to its staff and paid bonuses based upon staff performance and profits of the Group.

4 LOOKING AHEAD

Since 2013, the State Council and General Administration of Sports of China have published various opinions relating to sports and health industry which provided material development opportunities for the development of health services industry and sports services industry. Looking forward, there will still be tremendous room for the growth of the PRC sports and health industry which enters a flourishing stage, and the growth of demand will remain strong. Meanwhile, the construction of stadiums, which was driven by the urbanisation in the PRC, the growing number of consumers pursuing healthy lifestyle, the trend of fitness, the promotion of national fitness and support to health industry from the PRC government and the rising demand of consumers for products and services in terms of personalised need and professionalism have provided the Group with an important opportunity for future development. The Group will maintain its leading position in the existing sportswear business while promoting the implementation and enforcement of strategies with respect to sports and health industry in all aspects.

In view of current situation, the Group and its controlling shareholder will fully utilize the leading position in sports and health products and services with the determination to implement the development strategy for the sports and health industry. The sports and health ecosphere will be continued to be established based on customers' sports and health lifestyle. Centered around sports and health products and big data to develop and consolidate industry resources, the ecosphere links consumers, scenarios and products with the service provider through a mobile sports and health community to cater for the consumers' sports and health lifestyle and provide them with comprehensive services.

In the second half of 2017, the Group will focus on the promotion of the following tasks:

1. to vigorously promote "Hosa new retail", including implementation of integration of online and offline sales, establishment of brand new O2O function, improvement in consumption experience of customers through ordering products via mobile applications and providing mobile payment service at our offline stores, as well as the exploration of consumers' demand through big data analysis;

2. to implement cooperation with upstream and downstream enterprises in the industry (including mobile applications for sports and health), to integrate industry resources by flexible cooperative investment, and develop the sports and health industry;

3. to continue to develop new sports and health products, research on and consolidate sports and health products and services to explore new business growth drivers based on consumers' needs;

4. to continue to promote the titled sponsorship cooperation of various sports and fitness events, and enhance the professional image and reputation for the brand.

The Group believes that the promotion and implementation of the above measures will tremendously consolidate the competitive edges of the Group in sports and health sectors in the future. Although there might be an impact on the results indicators of the Group in a short term due to the transformation and upgrading, it is considered to be an inevitable stage for the better enhancement of its long-term competitiveness and for the greater room for development of the Group. We believe that the implementation of the Group's sports and health industry strategies will form a foundation for the future development and create a huge room for the future development and growth of the Group as well as greater value and returns to the consumers and Shareholders.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2017.

AUDIT COMMITTEE

Pursuant to the meeting of the audit committee of the Company (the "Audit Committee") on 21 August 2017, the Audit Committee has reviewed the unaudited consolidated financial statements of the Group for the six months ended 30 June 2017, including the accounting principles, treatments and practices adopted by the Group. The Audit Committee has no disagreement with the accounting principles, treatments and practices adopted by the Group.

COMPLIANCE WITH THE MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") as its own code of conduct for securities transactions by the Directors. Specific enquiries have been made with all Directors and all Directors confirmed that they have complied with the Model Code for the six months ended 30 June 2017.

CORPORATE GOVERNANCE

During the period from 1 January 2017 to 30 June 2017, the Company has complied with the code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules.

INTERIM DIVIDEND

The Board proposed to pay an interim dividend of HK3.9 cents (equivalent to approximately RMB3.3 cents) per share of the Company in cash to shareholders of the Company (the "Shareholders") for the six months ended 30 June 2017, representing a total payout of approximately HK$65.0 million (equivalent to approximately RMB56.3 million). The interim dividend will be paid out from the Company's retained earnings.

The interim dividend will be paid on or around Thursday, 30 November 2017 to the Shareholders whose names appear on register of members of the Company at close of business on Wednesday, 22 November 2017.

CLOSURE OF REGISTER OF MEMBERS

In order to determine the entitlement of the Shareholders to receive the interim dividend, the register of members of the Company will be closed from Monday, 20 November 2017 to Wednesday, 22 November 2017, both days inclusive, during which period no transfer of shares in the Company will be registered. The record date for entitlement to receive the interim dividend is Wednesday, 22 November 2017. In order to be eligible to receive the interim dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Rooms 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Friday, 17 November 2017.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This interim results announcement will be published on the websites of the Stock Exchange (http://www.hkexnews.hk) and the Company (http://www.hosa.cn). The interim report of the Company for the six months ended 30 June 2017 will be dispatched to the shareholders and published on the websites of the Stock Exchange and the Company in due course.

By order of the Board
Hosa International Limited
Shi Hongliu
Chairman

Hong Kong, 21 August 2017

As at the date of this announcement, the executive Directors are Mr. Shi Hongliu, Mr. Shi Hongyan, Mr. Shi Zhixiong and Mr. Lui Wai Ming and the independent non-executive Directors are Ms. Ko Yuk Lan, Mr. Yao Ge and Mr. He Wenyi.