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MEIKE INTERNATIONAL HOLDINGS LIMITED

美克國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 00953)

ANNOUNCEMENT OF THE UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2013

The board (the “Board”) of directors (the “Directors”) of Meike International Holdings Limited (the “Company”) is pleased to announce the unaudited results of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2013 (the “Period”) as follow:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2013

		Six months ended	
		30 June	
		2013	2012
	<i>Notes</i>	RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Revenue	5	111,834	154,806
Cost of sales		<u>(80,403)</u>	<u>(112,657)</u>
Gross profit		31,431	42,149
Other income		53,368	483
Other gains and losses, net		–	139
Impairment loss recognised in respect of trade receivables		(108,303)	–
Selling and distribution costs		(8,895)	(14,380)
Administrative expenses		(20,482)	(22,498)
Other operating expenses		(3,777)	(6,648)
Finance costs	7	<u>(4,944)</u>	<u>(6,453)</u>
Loss before tax		(61,602)	(7,208)
Income tax credit (expense)	8	<u>827</u>	<u>(121)</u>
Loss and total comprehensive expense for the period attributable to owners of the Company	9	<u><u>(60,775)</u></u>	<u><u>(7,329)</u></u>
Loss per share			
Basic and diluted (RMB cents)	11	<u><u>(5.130)</u></u>	<u><u>(0.619)</u></u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2013

		30 June 2013 <i>RMB'000</i> (Unaudited)	31 December 2012 <i>RMB'000</i> (Audited)
	<i>Notes</i>		
Non-current assets			
Property, plant and equipment		156,653	161,563
Prepaid lease payments		46,524	47,065
Deferred tax asset		4,688	3,861
		<u>207,865</u>	<u>212,489</u>
Current assets			
Inventories		101,228	99,992
Trade, bills and other receivables	12	340,926	417,537
Prepaid lease payments		1,098	1,098
Short-term bank deposit		89,099	86,050
Bank balances and cash		146,266	175,059
		<u>678,617</u>	<u>779,736</u>
Current liabilities			
Trade and other payables	13	25,185	41,102
Amount due to a related company		464	15
Bank borrowings		142,300	171,800
		<u>167,949</u>	<u>212,917</u>
Net current assets		<u>510,668</u>	<u>566,819</u>
Total assets less current liabilities		<u>718,533</u>	<u>779,308</u>
Non-current liability			
Deferred tax liabilities		6,509	6,509
Net assets		<u><u>712,024</u></u>	<u><u>772,799</u></u>
Capital and reserves			
Share capital		10,355	10,355
Reserves		701,669	762,444
Total equity		<u><u>712,024</u></u>	<u><u>772,799</u></u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

1. GENERAL

Meike International Holdings Limited was incorporated in the Cayman Islands as an exempted company with limited liability on 25 June 2009. The shares of the Company have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) since 1 February 2010.

2. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”).

3. PRINCIPAL ACCOUNTING POLICIES

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

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the Period are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2012.

In the Period, the Group has applied, for the first time, the following new or revised Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA that are relevant for the preparation of the Group’s condensed consolidated financial statements.

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

Except as described below, the application of the above amendments to HKFRSs in the Period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 introduce new terminology for statement of comprehensive income and income statement. Under the amendments to HKAS 1, a statement of comprehensive income is renamed as a statement of profit or loss and other comprehensive income and an income statement is renamed as a statement of profit or loss. The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the existing option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes.

4. RESULTS FOR THE PERIOD

Due to the seasonal nature of the sports goods products, higher revenues are usually expected in the second half of the year than in the first six months. Higher sales during the second half of the year are mainly attributed to the sale of winter clothing which generally has higher unit prices.

5. REVENUE

Revenue represents the amount received and receivable for sale of sporting goods, including footwear, apparel and accessories, net of sales related taxes. Revenue is analysed as follows:

	Six months ended	
	30 June	
	2013	2012
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Footwear	84,288	98,987
Apparel	26,185	44,908
Accessories and shoe sole	1,361	10,911
	<u>111,834</u>	<u>154,806</u>

6. SEGMENT INFORMATION

Operating segments, and the amounts of each segment item reported in the condensed consolidated financial statements, are identified from the financial information provided regularly to the Group's chief operating decision maker for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

The Group is organised into a single operating segment as selling sporting goods products primarily in the People's Republic of China (the "PRC" or "China") and all revenues, expenses, results, assets and liabilities and capital expenditures are predominantly attributable to this single segment. Accordingly, no segment analysis by business and geographical information is presented.

7. FINANCE COSTS

	Six months ended	
	30 June	
	2013	2012
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Interest on bank loans wholly repayable within five years	<u>4,944</u>	<u>6,453</u>

8. INCOME TAX (CREDIT) EXPENSE

	Six months ended	
	30 June	
	2013	2012
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current tax:		
PRC Enterprise Income Tax	—	624
Deferred tax	<u>(827)</u>	<u>(503)</u>
	<u>(827)</u>	<u>121</u>

9. LOSS FOR THE PERIOD

Loss for the period has been arrived after charging (crediting):

	Six months ended	
	30 June	
	2013	2012
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Depreciation and amortisation	4,944	5,498
Allowance for inventories (included in cost of sales)	3,309	17,970
Gain from changes in fair value of derivative financial instruments	–	(139)
Loss on disposal of property, plant and equipment	317	42
Net foreign exchange losses (gains)	117	(131)
Research and development costs (included in other operating expenses) (<i>Note</i>)	<u>3,344</u>	<u>4,174</u>

Note:

Research and development costs included staff costs and depreciation of property, plant and equipment for the purpose of research and development activities.

10. DIVIDENDS

No dividends were paid, declared or proposed during the Period. The directors have determined that no dividend will be paid in respect of the Period.

11. LOSS PER SHARE

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

	Six months ended	
	30 June	
	2013	2012
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Loss		
Loss for the purpose of basic and diluted loss per share		
(Loss for the period attributable to the owners of the Company)	<u><u>(60,775)</u></u>	<u><u>(7,329)</u></u>
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	<u><u>1,184,610</u></u>	<u><u>1,184,610</u></u>

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

The diluted loss per share for the six months ended 30 June 2013 and 2012 are the same as the basic loss per share as there were no dilutive potential ordinary shares outstanding during the Period.

12. TRADE, BILLS AND OTHER RECEIVABLES

In the past, the Group generally allows a credit period ranging from 90 days to 180 days to its trade customers. During the year ended 31 December 2012, the management of the Group, upon negotiation with individual specific customers, extended the credit period ranging from 180 days to 270 days to certain customers depending on their financial strength, past credit history and business performance history.

The following is an aged analysis of trade receivables by age, presented based on the invoice dates which approximated the revenue recognition date.

	30 June	31 December
	2013	2012
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Within 90 days	67,019	96,467
91 – 180 days	52,587	90,929
181 – 365 days	92,663	95,981
Over 365 days	<u><u>16,656</u></u>	<u><u>19,459</u></u>
	<u><u>228,925</u></u>	<u><u>302,836</u></u>

13. TRADE AND OTHER PAYABLES

The following is an analysis of trade payables by age, presented based on the invoice date:

	30 June 2013 RMB'000 (Unaudited)	31 December 2012 RMB'000 (Audited)
Within 90 days	1,416	9,405
91 – 180 days	1,147	107
181 – 365 days	846	841
Over 365 days	5,510	5,816
	<u>8,919</u>	<u>16,169</u>

14. OPERATING LEASES COMMITMENT

At the end of the Period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	30 June 2013 RMB'000 (Unaudited)	31 December 2012 RMB'000 (Audited)
Within one year	1,155	918
In the second to fifth years, inclusive	1,829	1,221
	<u>2,984</u>	<u>2,139</u>

15. CAPITAL COMMITMENTS

Capital commitments in respect of construction in progress at the end of the Period were as follows:

	30 June 2013 RMB'000 (Unaudited)	31 December 2012 RMB'000 (Audited)
Contracted but not provided for in the condensed consolidated financial statements	<u>34,968</u>	<u>35,791</u>

16. RELATED PARTY TRANSACTIONS

The Group has the following significant related party transactions:

- (i) During the Period, the Group leased certain interest in leasehold land held for own use under operating leases and buildings from a related company, Hengqiang (China) Co., Ltd. at total rental expenses of approximately RMB395,000 (six months ended 30 June 2012: RMB395,000). Mr. Ding Siqiang, a director of the Company, is holding 80% of Hengqiang (International) Co., Ltd., which is the ultimate holding company of Hengqiang (China) Co., Ltd.

As at 30 June 2013 and 31 December 2012, a guarantee of RMB46,000,000 was jointly provided by Mr. Ding Siqiang and Ms. Ding Xueleng to secure certain banking facilities of the Group. Mr. Ding Siqiang and Ms. Ding Xueleng are the directors of the Group.

- (ii) The remuneration of Directors and other members of key management during the six months ended 30 June 2013 and 2012 were as follows:

	Six months ended	
	30 June	
	2013	2012
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Short-term benefits	1,150	1,432
Post-employment benefits	33	39
Share-based payments	—	333
	<u>1,183</u>	<u>1,804</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Industry Review

Although the Chinese government has established different policies to stabilise the inflation and to maintain the growth of the economy, China's economy was still affected by the shrinkage of the domestic demand in the first half of 2013. Besides, the slow recovery of the global economy has persistently affected the demands from both the overseas and domestic markets.

China's sportswear industry is still facing challenges from the over-expansion of distribution and retail channel, excessive inventory level piled and increasing operation costs over the past few years. Industry players have managed to solve the problems through different measures, like restructuring of the distribution and retail channels, revising the process of placing orders and clearing ageing inventory. Although some of the industry players have been recovered through all these measures, it is generally considered that intensifying competition will remain for a certain period of time.

Business Review

Since the second half of 2011, the Group had implemented an integration programme with its distributors to integrate outlets with relatively small floor areas, high cost, low efficiency and low profitability to large floor area and higher efficiency outlets. The Group has continued the integration programme in the first half of 2013 and as a result of the programme, the Group had 19 distributors overseeing 871 outlets which comprised 543 Meike distributor outlets and 328 Meike retailer outlets as at 30 June 2013. The outlets are located across 22 provinces, autonomous regions and municipalities in the PRC. Besides, during the Period, the Group has devoted more resources and strengthen the cooperation with the distributors to enhance the image of their outlets, we also provided intensive training programme to their salespersons to improve the quality of services to the customers.

On the other hand, the Group has devoted more resources to consistently improve our research and development capabilities to enhance the quality and diversification of our products and as a result, certain new sport shoe models have been launched during the Period which were well-accepted by the distributors and the market.

Through the export companies, the Group's export products were ultimately sold to 11 overseas countries, including Germany, Turkey, South Africa, Russia, Australia and Morocco. The Group will continue to enhance its product design capacity, to better control its production costs and to maintain the high quality of its products to meet the requirements of its export company customers and overseas customers.

The following table sets out the total number of the Group’s distributors and outlets (including Meike distributor outlets and Meike retailer outlets) in China as at 30 June 2013 and 31 December 2012, respectively by geographical location:

	As at 30 June 2013		As at 31 December 2012	
	Distributors	Outlets	Distributors	Outlets
East China ⁽¹⁾	8	342	8	540
Central South China ⁽²⁾	6	415	6	475
Southwest China ⁽³⁾	2	66	2	98
Northeast China ⁽⁴⁾	1	22	1	49
Northwest China ⁽⁵⁾	2	26	2	35
Total	<u>19</u>	<u>871⁽⁶⁾</u>	<u>19</u>	<u>1,197⁽⁷⁾</u>

Notes:

(1) East China includes Shanghai, Jiangsu, Zhejiang, Anhui, Fujian, Jiangxi and Shandong;

(2) Central South China includes Hunan, Hubei, Henan, Guangdong, Guangxi and Shanxi;

(3) Southwest China includes Chongqing, Sichuan and Guizhou;

(4) Northeast China includes Liaoning and Heilongjiang;

(5) Northwest China includes Gansu, Qinghai, Ningxia and Xinjiang;

(6) 543 were Meike distributor outlets and 328 were Meike retailer outlets.

(7) 508 were Meike distributor outlets and 689 were Meike retailer outlets;

For export products, the Group mainly sells footwear products through export companies. Before 2007, export business was a major source of the Group’s revenue. In 2006, as the Group adjusted its strategy to further develop the “Meike” branded products, the Group changed its focus of operation from export business to the “Meike” branded products. Since then, the percentage of the Group’s revenue contributed from the export business continued to drop.

Product Development and Design

Currently, each of the footwear and apparel segments has its own dedicated in-house design team to design products that meet the tastes and preferences of the Group’s target consumers. The core members of the Group’s design teams have extensive experience in the design industry and graduated from design or art schools in the PRC. The majority of the Group’s design team members graduated from college in the PRC and have design or art related diploma. Most of the Group’s design team

members have more than 7 years design related experience after joining the Group. To maintain an international perspective to the Group's designs, each product design team visited the leading fashion stores, shopping centers and fashion shows in South Korea, North America and Europe, from time to time which in the Group's belief, have been, and will continue to be, influential in setting the fashion trends in the PRC. The Group believes that this practice enables the design team to cater for the latest fashion trends while echoing thematic elements from the Group's integrated marketing campaigns to establish a consistent image for the Group's brand and products.

As at 30 June 2013, the Group had a total of 49 full-time employees in its design and development department.

Financial Review

Revenue by product category

	Six months ended 30 June			Six months ended 30 June	
	2013 <i>RMB'000</i>	2012 <i>RMB'000</i>	<i>Change (%)</i>	2013 <i>% of total revenue</i>	2012
Footwear					
Domestic	61,505	56,159	9.5	55.0	36.3
Export	22,783	42,828	(46.8)	20.4	27.7
	84,288	98,987	(14.8)	75.4	64.0
Apparel	26,185	44,908	(41.7)	23.4	29.0
Accessories and shoe soles	1,361	10,911	(87.5)	1.2	7.0
Total	111,834	154,806	(27.8)	100	100
Gross profit margin (%)	28.1	27.2			

For the Period, the revenue of the Group decreased by approximately 27.8% to approximately RMB111,834,000 (six months ended 30 June 2012: approximately RMB154,806,000) and the gross profit margin increased by approximately 3.3% to approximately 28.1% (six months ended 30 June 2012: approximately 27.2%).

Revenue from domestic sales of footwear products slightly increased by approximately 9.5% from approximately RMB56,159,000 for the six months ended 30 June 2012 to approximately RMB61,505,000 for the Period, primarily resulting from the new products launched by the Group during the Period which were well-accepted by the distributors and the market but the Group is still facing the intensified competition, e.g. deep discount and intensive promotional sales of the major local brands, that affect the sales of the Group's new products.

Revenue from export sales of footwear products decreased by approximately 46.8% from approximately RMB42,828,000 for the six months ended 30 June 2012 to approximately RMB22,783,000 for the Period, mainly as a result of the reduced demand from its overseas customers, especially in the European countries.

Revenue from the sales of the Group's apparel products decreased by approximately 41.7% from approximately RMB44,908,000 for the six months ended 30 June 2012 to approximately RMB26,185,000 for the Period, mainly as a result of the intensified competition, e.g. deep discount, intensive promotional sales of the major local brands and the reduced demand for the "Meike" brand apparel products.

Cost of Sales

Cost of sales decreased by approximately 28.6% to approximately RMB80,403,000 for the Period (six months ended 30 June 2012: approximately RMB112,657,000), primarily as a result of the decrease in sales of the Group's products.

Gross Profit Margin

Gross profit margin slightly increased from approximately 27.2% for the six months ended 30 June 2012 to approximately 28.1% for the Period, mainly due to the launch of certain new sports shoes with higher gross profit margin that were well-accepted by the distributors and the market during the Period.

Other Income

Other income primarily represented the reversal of impairment loss of trade receivables of approximately RMB49,986,000 that has been recognised as at the year ended 31 December 2012.

Selling and Distribution Costs

Selling and distribution costs decreased by approximately 38.1% from approximately RMB14,380,000 for the corresponding period in 2012 to approximately RMB8,895,000 for the Period, primarily resulting from the decrease of the marketing expenses and staff salaries.

Administrative Expenses

Administrative expenses decreased by approximately 9.0% from approximately RMB22,498,000 for the corresponding period in 2012 to approximately RMB20,482,000 for the Period, primarily due to the decrease in the staff salaries and welfare.

Income Tax Credit (Expense)

The income tax credit of the Group for the Period was approximately RMB827,000 (six months ended 30 June 2012: income tax expense approximately RMB121,000).

Inventories and Provision for Inventories

The following table sets out the aging analysis of inventories:

	As at 30 June 2013				As at 31 December 2012			
	Raw Materials RMB'000	Work-in- progress RMB'000	Finished Goods RMB'000	Total RMB'000	Raw Materials RMB'000	Work-in- progress RMB'000	Finished Goods RMB'000	Total RMB'000
0-90 days	15,825	963	37,876	54,664	27,514	4,602	40,795	72,911
91-180 days	11,097	776	14,494	26,367	3,455	–	17,939	21,394
181-365 days	18,716	279	15,620	34,615	6,931	–	8,868	15,799
Over 365 days	1,324	–	3,011	4,335	–	–	5,332	5,332
Provision	–	–	(18,753)	(18,753)	–	–	(15,444)	(15,444)
	<u>46,962</u>	<u>2,018</u>	<u>52,248</u>	<u>101,228</u>	<u>37,900</u>	<u>4,602</u>	<u>57,490</u>	<u>99,992</u>

The Group generally procures raw materials and commences production after having confirmed purchase orders with our distributors after our sales fairs in order to control the levels of raw materials and keep finished goods inventories at an optimal level to meet our production and sales needs.

Inventories slightly increased by approximately 1.2% from approximately RMB99,992,000 as at 31 December 2012 to approximately RMB101,228,000 as at 30 June 2013 and number of days of inventory turnover increased from approximately 137 days for the year ended 31 December 2012 to approximately 229 days for the Period. This was mainly due to the reduction in sales of the Group's distributors as a result the slowdown in the demand of sportswear and the intensifying competition from the major local brands through substantial discount to clear their excessive inventory level since the second half of 2011.

The Group made specific provision on inventories. The Group has conducted physical counts from time to time to identify obsolete, damaged or slow-moving inventories. Provision will be made on an item of inventories if the carrying amount is lower than the net realisable value.

The Group had further made an allowance of approximately RMB3,309,000 on finished goods as at 30 June 2013 which were slow-moving, off-season or without any subsequent sales. The Board considered that the allowance on inventories was adequate for the Period.

No provision was made for work-in-progress as those work-in-progress was still in progress and for orders of the second half of 2013.

Provision for doubtful debts

The Group generally granted each of our distributors a credit period of no more than 180 days, however, the Group has extended the credit period for certain distributors up to 270 days during the year ended 31 December 2012 upon negotiation after considering their financial strength, past credit history and business performance history. The Group believed that this would allow these distributors with more flexibility, which in turn might encourage them to sustain their development of our brand or enhance their sales even in market with intensified competition and reduction in demand. This measure was adopted by the Group temporarily and will be revised from time to time according to the market situation.

Trade receivables, net of provision for impairment loss, decreased by approximately 24.4% from approximately RMB302,836,000 as at 31 December 2012 to approximately RMB228,925,000 as at 30 June 2013. Besides, turnover day of trade receivables decreased from approximately 484 days for the year ended 31 December 2012 to approximately 434 days for the Period due to further recognition of impairment loss as at 30 June 2013. This is because starting from the second half of 2011, the demand in sportswear was obviously reduced but at the same time the sportswear industry experienced challenges from over-expansion and piling up of inventory in distribution channels, certain major players have adopted difference measures, like repurchase inventories from their distributors and re-sell with deep discount in their factory outlets or discount stores and intensive promotional sales of their new products, sales of the Group's distributors have been greatly affected and deteriorated significantly, who then, delayed their payment to settle their outstanding balances due to the Group and the Group had to provide impairment loss for the outstanding balances that had exceeded the credit period agreed with the distributors.

Other receivables mainly represented the prepayment to the Group's suppliers as the Group had to retain sufficient materials to cope with the Group's production plans.

The Group estimated impairment loss on trade and other receivables based on the inability of customers to make the required payments and there was objective evidence that the Group would not be able to collect all amounts due. The Group made the estimates based on the payment history, customer's credit worthiness, historical write-off experience and default or delinquency in payments. During the six months ended 30 June 2013, impairment loss in respect of trade receivables was recognised in the consolidated statement of comprehensive income amounting to approximately RMB108,303,000 and approximately RMB49,986,000 of impairment loss was reversed from the impairment loss that was recognised as at 31 December 2012.

No impairment loss was recognised in respect of other receivables.

Details of trade and other receivables as at 30 June 2013 are set out in note 12 to the condensed consolidated interim financial statements in this announcement.

Liquidity and Financial Resources

During the Period, net cash inflow from operating activities of the Group amounted to approximately RMB11,392,000 (2012: net cash inflow of approximately RMB89,719,000). As at 30 June 2013, cash and cash equivalents, including bank deposits and cash in hand, and short-term bank deposits with original maturities not exceeding three months, amounted to approximately RMB235,365,000, representing a net decrease of approximately RMB25,744,000 as compared to the position as at 31 December 2012.

Pledge of Assets

As at 30 June 2013, the Group secured its bank borrowings by prepaid land lease payments and building held for own uses with a carrying amount of approximately RMB72,206,000 (31 December 2012: approximately RMB73,534,000) and trade receivables of approximately RMB45,652,000 (31 December 2012: approximately RMB101,846,000).

Capital Commitments and Contingent Liabilities

Details of the capital commitments as at 30 June 2013 are set out in note 15 to the condensed consolidated interim financial statements of this announcement. As at 30 June 2013, the Group did not have any material contingent liabilities.

Loss Attributable to Owner of the Company and Net Loss Margin

For the Period, loss attributable to the owner of the Company amounted to approximately RMB60,775,000, representing an increase of approximately 729.2% over that in the same period of 2012 (six months ended 30 June 2012: loss attributable to the owner of the company amounted to approximately RMB7,329,000). Net loss margin of the Group is approximately 54.3% (six months ended 30 June 2012: net loss margin approximately 4.7%).

Foreign Exchange Risk

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

During the Period, the Group did not hedge any exposure in foreign currency risk. Any substantial exchange rate fluctuation of foreign currencies against Renminbi may cause financial impacts on the Group.

Gearing Ratio

As at 30 June 2013 the gearing ratio of the Group was approximately 16.1% (31 December 2012: approximately 17.3%), which was derived by dividing interest-bearing debt incurred in the ordinary course of business by total assets.

Interest-bearing Bank Loans

As at 30 June 2013, the Group's bank loans balance amounted to approximately RMB142,300,000, bearing interest rates from 5.49% to 7.87%, which are all due within one year.

Human Resources

As at 30 June 2013, the Group had a total of 1,434 employees (31 December 2012: 1,518 employees).

Material Acquisition and Disposal

The Group did not have any material acquisition and disposal of subsidiaries and associated companies during the Period.

Use of Net Proceeds from the Share Offering

The shares of the Company were listed on the Main Board of the Stock Exchange on 1 February 2010 (the "Listing Date") with net proceeds from the share offering and the exercise of the over-allotment option received by the Company of approximately HK\$335.4 million (approximately RMB295.2 million) and approximately HK\$46.3 million (approximately RMB40.7 million) respectively (after deducting underwriting commission and related expenses). The following table sets out the use of proceeds up to 30 June 2013:

	Available to utilise (as at 1 January 2013)	Utilised (as at 30 June 2013)	Unutilised (as at 30 June 2013)
Use of Net Proceeds (RMB million)			
Expansion of production capacity	14.9	2.3	12.6
Expansion of the sales network and market penetration	2.6	1.2	1.4
Develop and increase brand awareness	<u>33.3</u>	<u>2.0</u>	<u>31.3</u>
	<u>50.8</u>	<u>5.5</u>	<u>45.3</u>

Future Prospects

Despite of the recovery of some of the major sportswear brands during the Period, the Board believes that the growth of the sportswear industry would still be low due to the slowdown of the domestic economic and the volatility of global economic. Although industry players have implemented different measures, like streamline and restructuring on distribution channels, repurchased ageing inventory from distributors and re-sale with deep discounts, reducing future orders, etc., in order to solve the problem stemming from the over-expansion from the past few years, industry players are still facing challenges and uncertainties from intense competition and increasing operation costs.

In order to cope with the current unfavourable market condition, the Group will continue to focus on the development of the “Meike” brand by continuing to enhance the capabilities of product research and development in order to differentiate from other industry players and in response to the fast changing market trends. On the other hand, the Group will continue the integration programme with the distributors with supportive measures, like upgrading the shop images and providing intensive training programme to the salespersons to enhance the quality services, to help the distributors to overcome the challenges in the industry.

OTHER INFORMATION

Interim Dividend

The Board did not recommend the payment of interim dividend for the Period (2012: Nil).

Purchase, Sales 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 Period.

Code on Corporate Governance

Save as disclosed below, the Company had complied with all the code provisions as set out in the Corporate Governance (the “Code”) contained in Appendix 14 to the Listing Rules during the Period.

Under code provision A.2.1 of the Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The Company does not have any officer with the title of “chief executive officer”. This deviates from the code provision A.2.1 of the Code.

Mr. Ding Siqiang, who acts as the chairman and the president of the Company, is also responsible for overseeing the general operations of the Group. The Board will meet regularly to consider major matters affecting the operations of the Group. The Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Group. The roles of the respective executive Directors and senior management who are in charge of different functions complement the role of the chairman and chief executive. The Board believes that this structure is conducive to strong and consistent leadership enabling the Group to operate efficiently.

The Company understands the importance to comply with the code provision A.2.1 of the Code and will continue to consider the feasibility to comply with it. If compliance is determined, appropriate persons will be nominated to assume the different roles of chairman and chief executive.

Model Code for Securities Transactions by Directors of Listed Issuers

The Company has adopted the Model Code for securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the “Model Code”) as the code of conduct regarding directors’ securities transactions. Having made specific enquiry with all Directors, all Directors confirmed that they have complied with the required standard set out in the Model Code throughout the Period.

Audit Committee

The Company has an audit committee with terms of reference aligned with the provision of the Code as set out in Appendix 14 to the Listing Rules for the purpose of reviewing and providing supervision on the financial reporting process and internal controls of the Group. The audit committee comprises three members, all being independent non-executive Directors.

During the Period, the audit committee reviewed the accounting principles and practices adopted by the Group and the unaudited condensed consolidated interim financial statements of the Group for the Period and discussed internal control and financial reporting matters. The audit committee has reviewed this announcement and has provided advice and comments thereon to the Board. The audit committee is of the opinion that this interim results complied with applicable accounting standards, the Listing Rules, and that adequate disclosures have been made.

Amendment to the terms of reference of the Nomination Committee of the Company

The terms of reference of the Nomination Committee of the Company was amended on 23 August 2013 to include the review of the Company’s board diversity policy and the progress on achieving the objectives set for implementing the said policy as one of its duties.

By Order of the Board
Meike International Holdings Limited
Ding Siqiang
Chairman

PRC, 23 August 2013

As at the date of this announcement, the executive Directors are Mr. Ding Siqiang (Chairman), Ms. Ding Xueleng, Ms. Ding Jinzhu, Mr. Lin Yangshan, Mr. Li Dongxing and Mr. Ding Minglang; and the independent non-executive Directors are Ms. Qiu Qiuxing, Mr. Yang Chengjie and Mr. Lin Jiwu.