



POU SHENG INTERNATIONAL (HOLDINGS) LIMITED

實勝國際（控股）有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code : 3813)

Interim Report

2010

CONTENTS

Group Financial Highlights	1
Interim Results	
Condensed Consolidated Income Statement	2
Condensed Consolidated Statement of Comprehensive Income	3
Condensed Consolidated Statement of Financial Position	4
Condensed Consolidated Statement of Changes in Equity	5
Condensed Consolidated Statement of Cash Flows	6
Notes to The Condensed Consolidated Financial Statements	7
Management Discussion and Analysis	21
Other Information	30





GROUP FINANCIAL HIGHLIGHTS

	For the six months ended March 31,		Percentage increase
	2010	2009	
Revenue (<i>US\$'000</i>)	654,182	533,895	22.5%
Profit attributable to owners of the Company (<i>US\$'000</i>)	8,828	4,784	84.5%
Basic earnings per share (<i>US cent</i>)	0.21	0.13	61.5%
Dividend per share – Interim (<i>US cent</i>)	-	-	N/A



INTERIM RESULTS

The directors (the "Directors") of Pou Sheng International (Holdings) Limited (the "Company") are pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended March 31, 2010 with comparative figures for the corresponding period in 2009 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended March 31, 2010

	NOTES	For the six months ended March 31,	
		2010 US\$'000 (unaudited)	2009 US\$'000 (unaudited)
Revenue	3	654,182	533,895
Cost of sales		(453,786)	(358,750)
Gross profit		200,396	175,145
Other income		7,625	7,312
Selling and distribution expenses		(151,589)	(142,136)
Administrative expenses		(38,440)	(43,790)
Equity-settled share-based payments		(413)	(2,580)
Interests on bank borrowings wholly repayable within five years		(6,348)	(8,658)
Fair value changes on derivative financial instruments		217	69
Impairment loss of interests in jointly controlled entities		(2,480)	-
Share of results of associates		629	1,799
Share of results of jointly controlled entities		4,122	17,138
Profit before taxation		13,719	4,299
Income tax expense	4	(5,219)	(1,849)
Profit for the period	5	8,500	2,450
Attributable to:			
Owners of the Company		8,828	4,784
Non-controlling interests		(328)	(2,334)
		8,500	2,450
Earnings per share	7		
- Basic		US0.21 cent	US0.13 cent
- Diluted		US0.21 cent	US0.13 cent



INTERIM RESULTS

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended March 31, 2010

	For the six months ended March 31,	
	2010 US\$'000 (unaudited)	2009 US\$'000 (unaudited)
Profit for the period	8,500	2,450
Exchange difference arising on translation, representing other comprehensive income for the period	341	1,111
Total comprehensive income for the period	8,841	3,561
Attributable to:		
Owners of the Company	9,102	5,899
Non-controlling interests	(261)	(2,338)
	8,841	3,561



INTERIM RESULTS

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At March 31, 2010

	NOTES	At March 31, 2010 US\$'000 (unaudited)	At September 30, 2009 US\$'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment	8	181,939	185,951
Deposit paid for acquisition of property, plant and equipment	8	350	4,436
Prepaid lease payments		36,560	36,985
Rental deposits and prepayments		25,780	29,455
Intangible assets		71,470	73,756
Goodwill		27,622	27,622
Interests in associates		8,730	8,099
Loans to associates		7,502	7,499
Interests in jointly controlled entities		74,443	77,794
Loans to jointly controlled entities		85,631	73,613
Available-for-sale investment		1,000	1,000
Derivative financial instruments	9	54,595	55,321
Deferred tax assets		1,215	1,215
		576,837	582,746
CURRENT ASSETS			
Inventories		255,419	300,447
Trade and other receivables	10	201,832	192,446
Prepaid lease payments		1,008	1,047
Taxation recoverable		558	761
Amounts due from jointly controlled entities		14,619	8,493
Amount due from non-controlling interest of a subsidiary		-	732
Derivative financial instrument	9	943	-
Bank balances and cash		182,281	179,830
Asset classified as held for sale	11	656,660 5,479	683,756 -
		662,139	683,756
CURRENT LIABILITIES			
Trade and other payables	12	147,311	189,095
Taxation payable		9,280	8,622
Amounts due to non-controlling interests of subsidiaries		1,024	1,088
Bank borrowings		232,170	253,589
		389,785	452,394
NET CURRENT ASSETS		272,354	231,362
TOTAL ASSETS LESS CURRENT LIABILITIES		849,191	814,108
NON-CURRENT LIABILITIES			
Bank borrowings		47,582	20,652
Deferred tax liabilities		22,309	22,880
		69,891	43,532
NET ASSETS		779,300	770,576
CAPITAL AND RESERVES			
Share capital	13	5,504	5,504
Reserves		758,342	748,827
Equity attributable to owners of the Company		763,846	754,331
Non-controlling interests		15,454	16,245
TOTAL EQUITY		779,300	770,576



INTERIM RESULTS

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended March 31, 2010

	Equity attributable to owners of the Company											
	Share capital US\$'000	Share premium US\$'000	Special reserve US\$'000 (note (i))	Other reserve US\$'000 (note (ii))	Revaluation reserve US\$'000 (note (iii))	Share-based compensation reserve US\$'000	Non-distributable reserve US\$'000 (note (iv))	Translation reserve US\$'000	Accumulated profits US\$'000	Total US\$'000	Non-controlling interests US\$'000	Total US\$'000
At October 1, 2008 (audited)	4,575	601,238	96,269	(211,176)	-	706	13,333	34,831	105,940	645,716	16,593	662,309
Exchange difference arising on the translation of financial statements	-	-	-	-	-	-	-	1,115	-	1,115	(4)	1,111
Profit (loss) for the period	-	-	-	-	-	-	-	-	4,784	4,784	(2,334)	2,450
Total recognised income and expenses for the period	-	-	-	-	-	-	-	1,115	4,784	5,899	(2,338)	3,561
Recognition of equity-settled share-based payments	-	-	-	-	-	2,580	-	-	-	2,580	-	2,580
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	2,161	2,161
Transfer	-	-	-	-	-	-	491	-	(491)	-	-	-
At March 31, 2009 (unaudited)	4,575	601,238	96,269	(211,176)	-	3,286	13,824	35,946	110,233	654,195	16,416	670,611
Exchange difference arising on the translation of financial statements	-	-	-	-	-	-	-	(1,805)	-	(1,805)	49	(1,756)
Revaluation increase upon acquisition of subsidiaries	-	-	-	-	8,108	-	-	-	-	8,108	-	8,108
Loss for the period	-	-	-	-	-	-	-	-	(8,480)	(8,480)	(220)	(8,700)
Total recognised income and expense for the period	-	-	-	-	8,108	-	-	(1,805)	(8,480)	(2,177)	(171)	(2,348)
Issue of shares for acquisition of subsidiaries	388	41,984	-	-	-	-	-	-	-	42,372	-	42,372
Issue of shares to Yue Yuen Industrial (Holdings) Limited	541	49,459	-	-	-	-	-	-	-	50,000	-	50,000
Recognition of equity-settled share-based payments	-	-	-	-	-	9,941	-	-	-	9,941	-	9,941
Cancellation of Pre-IPO Share Subscription Plan	-	-	-	-	-	(13,227)	-	-	13,227	-	-	-
Transfer	-	-	-	-	-	-	1,451	-	(1,451)	-	-	-
At September 30, 2009 (audited)	5,504	692,681	96,269	(211,176)	8,108	-	15,275	34,141	113,529	754,331	16,245	770,576
Exchange difference arising on the translation of financial statements	-	-	-	-	-	-	-	274	-	274	67	341
Profit (loss) for the period	-	-	-	-	-	-	-	-	8,828	8,828	(328)	8,500
Total recognised income and expenses for the period	-	-	-	-	-	-	-	274	8,828	9,102	(261)	8,841
Recognition of equity-settled share-based payments	-	-	-	-	-	413	-	-	-	413	-	413
Deregistration of a subsidiary	-	-	-	-	-	-	-	-	-	-	(123)	(123)
Dividend paid to non-controlling interests of subsidiaries	-	-	-	-	-	-	-	-	-	-	(407)	(407)
Transfer	-	-	-	-	-	-	1,582	-	(1,582)	-	-	-
At March 31, 2010 (unaudited)	5,504	692,681	96,269	(211,176)	8,108	413	16,857	34,415	120,775	763,846	15,454	779,300

notes:

- (i) The special reserve represents the difference between the nominal value of the share capital issued by the Company and the share premium and the nominal value of the share capital of the subsidiaries comprising the Group prior to the Group reorganisation in 2008.
- (ii) The other reserve represents the difference between the fair value of the consideration paid and the relevant share of carrying value of the subsidiaries' net assets acquired from the non-controlling interests.
- (iii) The revaluation reserve represents the fair value adjustments on intangible assets attributable to the equity interest previously held by the Group at the date of acquisition of subsidiaries. The amount recognised in the revaluation reserve will be transferred to accumulated profits upon disposals of these subsidiaries or the relevant assets, whichever is earlier.
- (iv) According to the relevant laws in the People's Republic of China ("PRC"), wholly foreign-owned enterprises in the PRC are required to transfer at least 10% of their net profit after taxation, as determined under the PRC accounting regulations, to a non-distributable reserve fund until the reserve balance reaches 50% of their registered capital. The transfer to this reserve must be made before the distribution of a dividend to equity owners. The non-distributable reserve fund can be used to offset the previous years' losses, if any. The non-distributable reserve fund is non-distributable other than upon liquidation.



INTERIM RESULTS

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended March 31, 2010

	For the six months ended March 31,	
	2010 US\$'000 (unaudited)	2009 US\$'000 (unaudited)
Net cash from operating activities	29,778	30,354
Net cash used in investing activities		
Advances to jointly controlled entities	(11,993)	(2,253)
Purchase of property, plant and equipment	(9,548)	(37,904)
Investment in a jointly controlled entity	(6,588)	-
Repayment from non-controlling interest of a subsidiary	732	-
Repayments from jointly controlled entities	-	2,983
Advance to an associate	-	(10,836)
Purchase of available-for-sale investment	-	(1,000)
Investments in associates	-	(95)
Other investing cash flows	1,223	2,702
	(26,174)	(46,403)
Net cash used in financing activities		
Repayment of bank borrowings	(225,037)	(151,306)
Bank borrowings raised	230,472	141,130
Other financing cash flows	(6,755)	(8,732)
	(1,320)	(18,908)
Net increase (decrease) in cash and cash equivalents	2,284	(34,957)
Effect of foreign exchange rate changes	167	318
Cash and cash equivalents brought forward	179,830	183,253
Cash and cash equivalents carried forward, represented by bank balances and cash	182,281	148,614



INTERIM RESULTS

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

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

2. 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.

The accounting policies used in the preparation of the condensed consolidated financial statements are consistent with those followed in the preparation of the annual financial statements of the Group for the year ended September 30, 2009.

In the current interim period, the Group has applied, for the first time, new and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by the HKICPA, which are effective for the Group's financial year beginning on October 1, 2009.

Except as described below, the adoption of the new and revised HKFRSs has had no material effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

HKAS 1 (Revised 2007) has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements.

HKFRS 8 is a disclosure standard that has not resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14 "Segment Reporting" (see Note 3).



INTERIM RESULTS

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Amendments to HKFRS 5, HKFRS 8, HKAS 1, HKAS 7, HKAS 17, HKAS 36 and HKAS 39 as part of Improvements to HKFRSs 2009 ¹
HKFRSs (Amendments)	Improvements to HKFRSs 2010 ⁴
HKAS 24 (Revised)	Related Party Disclosures ²
HKAS 32 (Amendment)	Classification of Rights Issues ³
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters ¹
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters ⁵
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions ¹
HKFRS 9	Financial Instruments ⁶
HK(IFRIC) - Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement ²
HK(IFRIC) - Int 19	Extinguishing Financial Liabilities with Equity Instruments ⁵

¹ Effective for annual periods beginning on or after January 1, 2010

² Effective for annual periods beginning on or after January 1, 2011

³ Effective for annual periods beginning on or after February 1, 2010

⁴ Effective for annual periods beginning on or after July 1, 2010 and January 1, 2011, as appropriate

⁵ Effective for annual periods beginning on or after July 1, 2010

⁶ Effective for annual periods beginning on or after January 1, 2013

The Directors of the Company anticipate that the application of the new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.



INTERIM RESULTS

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. REVENUE AND SEGMENTAL INFORMATION

The Group has adopted HKFRS 8 "Operating Segments" with effect from October 1, 2009. HKFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker, being the board of Directors of the Company, in order to allocate resources to segments and to assess their performance.

In contrast, the predecessor Standard, HKAS 14, required an entity to identify two sets of segments (business and geographical) using a risks and returns approach, with the entity's "system of internal financial reporting to key management personnel" serving only as the starting point for the identification of such segments. In the past, the Group's primary reporting format was business segments.

In the opinion of the Directors, the basis upon which the Group reported its primary segment information under HKAS 14 in previous years is identical to the basis upon which internal reports have been presented to the Company's board of Directors. The Group's operating segments under HKFRS 8 are therefore identical to the business segments under HKAS 14. The application of HKFRS 8 has not resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14. Nor has the adoption of HKFRS 8 changed the basis of measurement of segment revenue, profit or loss, assets and liabilities.

The Group's operating segments under HKFRS 8, which are identical to its business segments under HKAS 14, are:

- (i) manufacturing and sales of OEM footwear ("Manufacturing Business");
- (ii) retailing of sportswear ("Retail Business");
- (iii) distribution of licensed products ("Brand Licensee Business"); and
- (iv) operation and management of sportswear malls ("Property Leasing and Management").



INTERIM RESULTS

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. REVENUE AND SEGMENTAL INFORMATION (Continued)

For the six months ended March 31, 2010

	Manufacturing Business US\$'000	Retail Business US\$'000	Brand Licensee Business US\$'000	Property Leasing and Management US\$'000	Eliminations US\$'000	Consolidated US\$'000
REVENUE						
External sales	59,356	566,155	23,796	4,875	-	654,182
Inter-segment sales*	-	-	3,150	400	(3,550)	-
Total	59,356	566,155	26,946	5,275	(3,550)	654,182
RESULTS						
Segment results	6,324	18,691	2,590	(6,412)	-	21,193
Unallocated income						1,482
Unallocated expenses						(4,954)
Equity-settled share-based payments						(142)
Interest on bank borrowings wholly repayable within five years						(6,348)
Fair value changes on derivative financial instruments						217
Impairment loss of interests in jointly controlled entities						(2,480)
Share of results of associates						629
Share of results of jointly controlled entities						4,122
Profit before taxation						13,719

* Inter-segment sales are charged at prevailing market rates.



INTERIM RESULTS

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. REVENUE AND SEGMENTAL INFORMATION (Continued)

For the six months ended March 31, 2009

	Manufacturing Business US\$'000	Retail Business US\$'000	Brand Licensee Business US\$'000	Property Leasing and Management US\$'000	Eliminations US\$'000	Consolidated US\$'000
REVENUE						
External sales	59,111	429,181	41,452	4,151	-	533,895
Inter-segment sales*	-	-	8,841	-	(8,841)	-
Total	59,111	429,181	50,293	4,151	(8,841)	533,895
RESULTS						
Segment results	6,506	(6,084)	6,471	(6,608)	-	285
Unallocated income						2,045
Unallocated expenses						(5,799)
Equity-settled share-based payments						(2,580)
Interest on bank borrowings wholly repayable within five years						(8,658)
Fair value changes on derivative financial instruments						69
Share of results of associates						1,799
Share of results of jointly controlled entities						17,138
Profit before taxation						4,299

* Inter-segment sales are charged at prevailing market rates.

Segment profit (loss) represents profit (loss) earned (incurred) by each segment without allocation of other income, central administrative costs, equity-settled share-based payments, interest on bank borrowings, fair value changes on derivative financial instruments and shares of results of or items related to jointly-controlled entities and associates. This is the measure reported to the chief operation decision makers for the purpose of resource allocation and performance assessment.

No analysis for the Group's assets and liabilities has been presented since, in the opinion of the Directors, there has been no material changes in the Group's assets and liabilities from the amounts disclosed in the last audited annual financial statements.



INTERIM RESULTS

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. INCOME TAX EXPENSE

	For the six months ended March 31,	
	2010 US\$'000	2009 US\$'000
Taxation attributable to the Company and its subsidiaries:		
Current tax charge:		
Hong Kong Profits Tax (note (i))	297	227
PRC Enterprise Income Tax ("EIT") (note (ii))	4,748	2,113
Overseas income tax (note (iii))	745	474
	5,790	2,814
Deferred tax credit	(571)	(965)
	5,219	1,849

notes:

(i) Hong Kong

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

(ii) PRC

PRC EIT was calculated based on the statutory rate of 25% of the assessable profit for those subsidiaries established in the PRC, as determined in accordance with the relevant income tax rules and regulations in the PRC, except for the followings:

- (a) Pursuant to the relevant laws and regulations in the PRC, certain of the Group's PRC subsidiaries are exempted from PRC income tax for two years starting from their first profit-making year, followed by a 50% reduction in the applicable tax rate for the next three years. These tax holidays and concessions will expire between 2008 and 2010.
- (b) Pursuant to 《國家稅務總局關於落實西部大開發有關稅收政策具體實施意見的通知》, the relevant state policy and with approval from tax authorities in charge, certain subsidiaries which are located in specified provinces of Western China and engaged in a specific encouraged industry are subject to a preferential tax rate of 15% during the period from 2001 to 2010 when the annual revenue from the encouraged business exceeds 70% of its total revenue in a fiscal year.

According to the Circular of the State Council on the Implementation of Transitional Preferential Policies for Enterprises Income Tax (Guofa [2007] No. 39), the tax holidays and concessions from EIT entitled as set out in (a) above continue to be applicable until the end of the five year transitional period under the Law of the PRC on Enterprise Income Tax (the "New Law"). The preferential treatment set out in (b) above continues on the implementation of the New Law.



INTERIM RESULTS

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. INCOME TAX EXPENSE (Continued)

notes: (Continued)

(ii) PRC (Continued)

For entities which were entitled to unutilised tax holidays (including two-year exemption and three-year half rate) under the then existing preferential tax treatments and the tax holidays have commenced, the unutilised tax holiday is allowed to be carried forward to 2008 and future years until their expiry. However, if an entity has not yet commenced its tax holiday due to its loss position, the tax holiday is deemed to commence from 2008 onwards.

(iii) Overseas

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

5. PROFIT FOR THE PERIOD

	For the six months ended March 31,	
	2010 US\$'000	2009 US\$'000
Profit for the period has been arrived at after charging:		
Depreciation of property, plant and equipment	15,629	16,577
Release of prepaid lease payment	476	218
Amortisation of intangible assets	2,310	-
Research and development expenditure	1,241	867
Impairment loss recognised on trade receivables	22	164
Impairment loss of interest in a jointly controlled entity (other than included in asset classified as held for sale) (note)	800	-
Allowance for inventories	3,032	1,673

note: During the six months ended March 31, 2010, an impairment loss of approximately US\$800,000 has been made in respect of the Group's interest in a jointly controlled entity, based on the expected loss arising from the anticipated disposal in the foreseeable future. The recoverable amount of the jointly controlled entity has been estimated by its fair value less cost to sell.



INTERIM RESULTS

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. DIVIDEND

No dividend was paid or declared during the period. The Directors do not propose the payment of an interim dividend (2009: nil).

7. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share for the period is based on the following data:

	For the six months ended March 31,	
	2010 US\$'000	2009 US\$'000
Earnings:		
Earnings for the purposes of basic and diluted earnings per share	8,828	4,784
	For the six months ended March 31,	
	2010	2009
Number of shares:		
Number of ordinary shares for the purpose of basic earnings per share	4,290,495,163	3,567,559,000
Effect of dilutive potential ordinary shares:		
Pre-IPO share subscription plan	-	124,252,000
Number of ordinary shares for the purpose of diluted earnings per share	4,290,495,163	3,691,811,000

The computation of diluted earnings per share for the six months ended March 31, 2010 does not assume the exercise of the Company's share options because the exercise price of those options was higher than the average market price of the shares for the period.



INTERIM RESULTS

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT/DEPOSIT FOR ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired property, plant and equipment of approximately US\$13,869,000 (six months ended March 31, 2009: US\$51,910,000).

9. DERIVATIVE FINANCIAL INSTRUMENTS

	At March 31, 2010 US\$'000	At September 30, 2009 US\$'000
Derivative financial assets:		
Call options for acquisition of additional interests in subsidiaries, associates and jointly controlled entities	55,538	55,321
Analysed for reporting purposes:		
Non-current assets	54,595	55,321
Current assets	943	-
	55,538	55,321

In October 2007, the Group entered into call option agreements with the other shareholders (the "Relevant Partners") of certain subsidiaries, associates and jointly controlled entities (the "Relevant Companies"), pursuant to which the Group, in return for its payment of a premium to each of the Relevant Partners (the "Option Premium"), has the right (but not the obligation) exercisable at its discretion to acquire from each of the Relevant Partners their respective equity interests (the "Relevant Equity Interests") in the Relevant Companies (the "Call Options").

The Call Options are exercisable within five years commencing from December 6, 2008, the expiry of the first six months after dealing in the shares of the Company on the Stock Exchange commenced and upon the mutual agreements between the Company and the Relevant Partners on certain conditions stipulated in the respective agreements in respect of the performance of the Relevant Companies during the pre-determined evaluation periods. As at the end of the reporting period, the conditions for the Call Options to be exercisable were not yet fulfilled. Each of the Relevant Partners has agreed not to transfer or dispose of the Relevant Equity Interests during the Call Options exercisable period without the Group's prior written consent.

Pursuant to the Call Options agreements, the consideration for acquiring the Relevant Equity Interests is to be determined based on the actual profit of the Relevant Companies attributable to the Relevant Partners during the pre-determined evaluation periods and the price earnings ratio of the Company during a specified period and after certain discount agreed between the Company and the Relevant Partners. The consideration is to be settled by the issue of shares in the Company at the average price during the same specified period and after deducting the Option Premium paid.



INTERIM RESULTS

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9. DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

Included in the balance at March 31, 2010 was an amount of US\$943,000 relating to the Call Option in respect of a jointly controlled entity which was classified as held for sale (see note 11). The fair value of this option is determined based on the expected consideration receivable arising from its anticipated disposal in the foreseeable future. The values of other Call Options at March 31, 2010 were valued by Savills Valuation and Professional Services Limited, an independent valuer, using the binomial model. The key inputs into the model include estimated earnings of the Relevant Companies and expected price earning ratio of the Company at the time of exercise of the options and further details are set out below:

	At March 31, 2010	At September 30, 2009
Derivative financial assets – Call Options:		
Expected price earning ratio – the Company	36	35
Expected volatility – the Company	54%	56%
Expected volatility – the Relevant Companies	35%	37%
Risk free rate	2.45%	2.73%
Exercisable period	3.7 years	4.2 years
Expected dividend yield	Nil	Nil

Expected volatility was measured at the standard deviation of expected share price returns based on statistical analysis of average daily share prices of the Company and comparable companies with similar business over the past years.



INTERIM RESULTS

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10. TRADE AND OTHER RECEIVABLES

The Group allows a credit period ranging from 30 days to 60 days which are agreed with each of its trade customers.

Included in trade and other receivables are trade and bills receivables of US\$114,623,000 (September 30, 2009: US\$115,469,000) and an aged analysis based on the invoice date is as follows:

	At March 31, 2010 US\$'000	At September 30, 2009 US\$'000
0 - 30 days	112,148	108,283
31 - 90 days	1,739	5,897
Over 90 days	736	1,289
	114,623	115,469

11. ASSET CLASSIFIED AS HELD FOR SALE

	At March 31, 2010 US\$'000
Amount comprises:	
Interest in a jointly controlled entity	5,479

On March 11, 2010, the Group entered into agreement with the joint venture partner of a jointly controlled entity, pursuant to which the parties agreed to, amongst other matters, the disposal of the Group's investment in the jointly controlled entity. The Group has recognised an impairment loss of approximately US\$1,680,000 during the six months ended March 31, 2010 which was calculated based on the difference between the carrying value of the Group's interest in the jointly controlled entity at March 31, 2010 and the estimated consideration receivable.

Further details of the transaction are set out in the Company's circular dated March 31, 2010. At the date of this report, the transaction has not yet been completed.



INTERIM RESULTS

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade and bills payables of US\$70,735,000 (September 30, 2009: US\$120,610,000) and an aged analysis based on the invoice date is as follows:

	At March 31, 2010 US\$'000	At September 30, 2009 US\$'000
0 - 30 days	68,763	105,539
31 - 90 days	1,461	14,620
Over 90 days	511	451
	70,735	120,610

13. SHARE CAPITAL

	Number of shares	Nominal value HK\$'000
Ordinary shares of HK\$0.01 each		
Authorised:		
At October 1, 2008, March 31, 2009, September 30, 2009 and March 31, 2010	30,000,000,000	300,000
Issued and fully paid:		
At October 1, 2008 and March 31, 2009	3,567,559,000	35,676
Issue of shares upon acquisition of subsidiaries	301,314,541	3,013
Issue of shares to Yue Yuen Industrial (Holdings) Limited	421,621,622	4,216
At September 30, 2009 and March 31, 2010	4,290,495,163	42,905
Shown in the condensed consolidated financial statements as at:		
		US\$'000
October 1, 2008 and March 31, 2009		4,575
September 30, 2009 and March 31, 2010		5,504



INTERIM RESULTS

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14. SHARE-BASED PAYMENT TRANSACTIONS

The Company adopts a share option scheme (the "Share Option Scheme") for eligible participants, including Directors and employees of the Group and other participants. Details of the share options granted to a Director and employees of the Group outstanding during the current period are as follows:

	Number of share options		
	A Director	Employees	Total
Outstanding at October 1, 2008, March 31, 2009 and September 30, 2009	-	-	-
Granted during the period	3,800,000	60,700,000	64,500,000
Lapsed during the period	-	(750,000)	(750,000)
Outstanding at March 31, 2010	3,800,000	59,950,000	63,750,000

The options granted during the period entitle the holders to subscribe for shares in the Company at the exercise price of HK\$1.62 per share during the period from January 21, 2011 to January 20, 2018.

The closing price of the Company's shares on the date of grant of the options was HK\$1.62.

The fair value of the options determined at the date of grant using the binomial model was HK\$47,717,000 (equivalent to approximately US\$6,149,000). The Group recognised an expense of US\$413,000 as equity-settled share-based payments for the six months ended March 31, 2010.



INTERIM RESULTS

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15. CONTINGENCIES AND COMMITMENTS

The Group had the following contingencies and commitments:

(I) Contingencies

	At March 31, 2010 US\$'000	At September 30, 2009 US\$'000
Guarantee given to banks in respect of banking facilities granted to jointly controlled entities		
- amount guaranteed	37,508	44,086
- amount utilised	30,379	34,840

(II) Commitments

	At March 31, 2010 US\$'000	At September 30, 2009 US\$'000
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of acquisition of property, plant and equipment	2,160	1,997
Other commitments contracted for but not provided in the condensed consolidated financial statements in respect of capital investment in jointly controlled entities	1,523	1,523
	3,683	3,520

In addition, the Group has contingent commitments in respect of further investments in jointly controlled entities. Details are set out in Note 18 of the 2009 Annual Report. At the end of the reporting period, the fair value of the relevant commitments is not material.



MANAGEMENT DISCUSSION AND ANALYSIS

INTERIM DIVIDEND

The Directors do not propose any interim dividend for the six months ended March 31, 2010.

BUSINESS OVERVIEW

The Group

For each of our businesses, the retail business distributes a wide range of sportswear products, including footwear, apparel and accessories, for certain leading international and domestic sportswear brands to end customers through our directly operated retail outlets, and also to retail sub-distributors on a wholesale basis, which in turn sell the products through their retail outlets under our supervision. As part of our strategy to enrich our retail network, brand portfolio and geographic coverage, we have established regional joint ventures in different regions in the PRC with leading local retailer. Those regional joint ventures operate their retail business under a model similar to ours. For the six months ended March 31, 2010, we had 2,272 directly operated retail outlets, and 2,811 retail sub-distributors, and our regional joint ventures' directly operated retail outlets and retail sub-distributors amounted to 2,039 and 1,894 respectively (the store operated by joint ventures "Hubei Jiezhixing" has been excluded due to the Group has reached definitive agreement to dispose of its equity interest in the company). The operations of the Group and our regional joint ventures have spanned over most of the provinces in the PRC.

For our brand licensee business, we are the exclusive brand licensee for selected international brands, namely Converse, Wolverine and Hush Puppies. The brand licensee agreements we have entered into typically grant us exclusive rights to design, develop, manufacture, market and distribute, and the flexibility to set retail prices of products under the licensed brands in specified geographical locations within the Greater China Region for a specified period of time. Our exclusive brand licensee arrangement with Converse in the PRC has officially expired on December 31, 2008. Starting from January 1, 2009, we have become the exclusive distributor of Converse's products in the PRC until December 31, 2011. Currently, we remain as the exclusive brand licensee for Converse in Hong Kong and Macau until December 31, 2010 and in Taiwan until December 31, 2012.

In addition, we manufacture OEM/ODM products for seven brands at our Taicang factory, namely Li Ning, ANTA, Umbro, Kappa, 361°, Lotto and XTEP.

To further diversify the types of retail channels and promote our "YY Sports" branding, our property leasing and management business has a dedicated unit that searches and leases the location as "sports complex" which contains multiple brands' outlets in one single location. These sports complexes are decorated with the full "YY Sports Store" concept which are then sub-divided and leased to the Group's retail business team or third parties.



MANAGEMENT DISCUSSION AND ANALYSIS

For our joint venture business, the Group integrates on a continuous basis with the regional joint ventures both on the operational and financial management and system levels, and will consider further acquisitions only after those integrations mature, in order to realize our rationale to become one of the leading retailers in the Greater China Region.

In the process of the joint venturing, taking the interest of the Group as a whole and the long term development into consideration, the Group has negotiated with certain joint venture partners in respect of the disposal of the Group's interests in these specific regional joint ventures. For the six months ended March 31, 2010, appropriate provisions for impairment of the Group's interests in joint ventures have been made due to the expected loss on the disposal of the Group's interests in those joint ventures after the balance sheet date. On the other hand, for the integration of the acquired regional joint ventures, the Group continued the integration of DZJ's (an acquired associate by the Group) frontline business, brand relationship, back-end networks and systems and so on. We believed that the Group's planned objectives of acquisition could be achieved before long.

FINANCIAL REVIEW

22

For the six months ended March 31, 2010, the Group recorded revenue of US\$654.2 million, and profit attributable to owners of the Company of US\$8.8 million (the profit attributable to owners of the Company reflected an aggregate of non-cash expenditure of US\$5.0 million of equity-settled share-based payments, provision for impairment loss of assets, amortization of intangible assets arising from acquisition of DZJ and fair value changes on derivative financial instruments), representing an increase of 22.5% and 84.5% respectively as compared with the six months ended March 31, 2009. Among them, while the operations of the Group stabilized, the performance of regional joint ventures as a whole worsened as a result of their operational modes and lag in the operational adjustment. For the six months ended March 31, 2010, the aggregate contributing net profit from the regional joint ventures was US\$4.8 million, representing a decrease of US\$14.1 million or 74.6% as compared with the six months ended March 31, 2009.

Under the initial recovery in the sportswear product retail industry in the first half of the financial year, we continue to improve operation excellence by rationalizing outlets distribution, optimizing inventory level and improve in-line products sell through ratio. We believe these will eventually create our long term sustainable core competence hence our margin would be improved.



MANAGEMENT DISCUSSION AND ANALYSIS

REVENUE

Our revenue increased by 22.5% to US\$654.2 million for the six months ended March 31, 2010 from US\$533.9 million for the six months ended March 31, 2009. This increase was primarily due to the continuing growth in our retail, manufacturing and property leasing businesses, in which the growth in retail business included the acquisition of the entire equity interest in DZJ. Excluding such acquisition, the Group's revenue for the six months ended March 31, 2010 would have been US\$535.2 million, representing an increase of 0.2% as compared with US\$533.9 million for the six months ended March 31, 2009.

Retail Business

Revenue from our retail business increased by 31.9% to US\$566.2 million for the six months ended March 31, 2010, from US\$429.2 million for the six months ended March 31, 2009. This increase was primarily attributable to the acquisition of DZJ, and the reclassification of sales of Converse in the PRC as retail business.

Brand Licensee Business

Revenue from our brand licensee business decreased by 42.7% to US\$23.8 million for the six months ended March 31, 2010, from US\$41.5 million for the six months ended March 31, 2009, which was primarily due to (i) our exclusive brand licensee arrangement with Converse in the PRC expired on December 31, 2008, and such sales have been reclassified as retail business since January 1, 2009; and (ii) the Group's sales of licensee brands, being affected by the general economic and business environment, were slightly lower than our expectations.

Manufacturing Business

Revenue from our manufacturing business is flat, from US\$59.1 million for the six months ended March 31, 2009 to US\$59.4 million for the six months ended March 31, 2010. For the current period and the corresponding period of last year, the number of production lines both remained at 19 as the capacity utilization rate reached a full-blown status and the average selling price remained stable.

Property Leasing and Management Business

Revenue from our property leasing and management business increased by US\$0.7 million to US\$4.9 million for the six months ended March 31, 2010, from US\$4.2 million for the six months ended March 31, 2009, which was mainly attributable to the influence of consolidating the financial statements of DZJ and the business environment in which the stores located were operating matured.



MANAGEMENT DISCUSSION AND ANALYSIS

COST OF SALES

Our cost of sales was US\$453.8 million for the six months ended March 31, 2010, compared with US\$358.8 million for the six months ended March 31, 2009, representing an increase of 26.5%, a higher increase than that of the revenue. This was primarily due to higher markdowns of our products in order to increase the sales and liquidate excessive inventory under the prime objectives of accomplishing operation excellence.

GROSS PROFIT AND GROSS PROFIT MARGIN

As a result of the aforementioned changes, the Group's gross profit increased by 14.4% to US\$200.4 million for the six months ended March 31, 2010, from US\$175.1 million for the six months ended March 31, 2009, while the overall gross profit margin decreased to 30.6% for the six months ended March 31, 2010 as compared with 32.8% for the six months ended March 31, 2009. The decrease in gross profit margin was primarily due to higher markdowns taken to increase the product sales in retail business and the reduction of inventory. In addition, sales of Converse in the PRC transited into our retail business as exclusive distributor, the gross profit margin under which was lower than that under brand licensee business. The gross profit margins of the Group's retail business and brand licensee business for the six months ended March 31, 2010 were 30.1% and 43.5% respectively, while the gross profit margin of the manufacturing business kept stable continuously.

OTHER INCOME

The Group's other income was US\$7.6 million for the six months ended March 31, 2010, as compared with US\$7.3 million for the six months ended March 31, 2009.

SELLING AND DISTRIBUTION EXPENSES AND ADMINISTRATIVE EXPENSES

Selling and distribution expenses and administrative expenses of the Group for the six months ended March 31, 2010 were US\$190.0 million in total, representing an US\$4.1 million, or 2.2% increase, as compared with US\$185.9 million for the six months ended March 31, 2009. Due to the operating leverage over economy of scale, the percentage of sales under selling and distribution expenses and administrative expenses has decreased from 34.8% for the first half of financial year 2009 to 29.0% for the current period. The increase in expenses aforementioned was mainly attributable to: (i) the increase in sales and number of directly operated retail outlets that caused the increase of employee wages and lease payments as a result of acquisition of DZJ; (ii) more frequent promotions and mega sales organized under the objective of continuously inventory adjustment in retail business, which increased the expenses for relevant mall promotions; (iii) the amortization of intangible assets arising from the acquisition of DZJ; and (iv) increased inventory allowance, primarily due to the excessive allowance for existing inventory in accordance to the market condition.



MANAGEMENT DISCUSSION AND ANALYSIS

EQUITY-SETTLED SHARE-BASED PAYMENTS

A summary of the principal terms and conditions of the Share Option Scheme which was approved by resolutions of the sole shareholder of the Company on May 14, 2008, is set out in the section headed "Share-Based Remuneration Scheme" in Appendix VIII to the Prospectus. The Share Option Scheme aims at rewarding and encouraging participants who have contributed to or will contribute to the growth and development of the Group and encouraging participants to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole. On this basis, on January 21, 2010, the Group granted to certain participants options to subscribe for ordinary shares of nominal value of HK\$0.01 each in the share capital of the Company pursuant to the Share Option Scheme at an exercise price of HK\$1.62 per share, and the number of shares exercisable and subscribable pursuant to the options granted then was 64,500,000. The Group recognized an expense of US\$0.41 million as equity-settled share-based payments for the six months ended March 31, 2010 with reference to the fair value of the options at the date of grant.

PROVISION FOR IMPAIRMENT LOSSES OF DISPOSAL OF INTERESTS IN JOINTLY CONTROLLED ENTITIES

For the six months ended March 31, 2010, the impairment losses of approximately US\$2.5 million have been made in respect of the Group's interests in two jointly controlled entities due to the expectation of loss arising from the anticipated disposals after the balance sheet date. Regarding the above two joint ventures, one of the joint ventures "Hubei Jiezhixing" has reached the definitive agreement of disposal with the Group (relevant details were set out in the Company's announcement and circular dated March 11, 2010 and March 31, 2010 respectively). At the date of this report, the transaction has not yet been completed.

In consideration of long-term interests and strategic deployment, the Group intends to dispose of its interest in specific joint ventures continuously. At present, we are in discussion with certain joint venture partners about the possibility of disposal of the investment in such joint ventures.

FAIR VALUE CHANGES ON DERIVATIVE FINANCIAL INSTRUMENTS

Fair value changes on derivative financial instruments were US\$0.2 million for the six months ended March 31, 2010, as compared with US\$0.1 million for the six months ended March 31, 2009.

INTERESTS ON BANK BORROWINGS WHOLLY REPAYABLE WITHIN FIVE YEARS

Our finance costs were US\$6.3 million for the six months ended March 31, 2010, representing a decrease of 27.6% from US\$8.7 million for the six months ended March 31, 2009, primarily as a result of a combination effect of decrease in the amount of the average monthly outstanding borrowings and the floating interest rates thereof remained stable during the period.



MANAGEMENT DISCUSSION AND ANALYSIS

SHARE OF RESULTS OF ASSOCIATES

Our share of results of associates decreased to US\$0.6 million for the six months ended March 31, 2010 from US\$1.8 million for the six months ended March 31, 2009. Barring the influence of DZJ, the remaining share of results of associates effectively increased by 41.5% to US\$0.6 million.

SHARE OF RESULTS OF JOINTLY CONTROLLED ENTITIES

Our share of results of jointly controlled entities decreased by 76% to US\$4.1 million for the six months ended March 31, 2010, from US\$17.1 million for the six months ended March 31, 2009. Along with the slowdown in effectiveness associated with the channel expansion since last year, more efforts were made to fuel sales, intensify price markdown and reduce purchase volume, consequently the relevant operating expenses increased and the gross profit was dampened, resulting in decreased contributions.

PROFIT BEFORE TAXATION

The Group's profit before taxation of US\$13.7 million for the six months ended March 31, 2010, representing an increase of 218.6% as compared with the profit of US\$4.3 million for the six months ended March 31, 2009.

26

INCOME TAX EXPENSE

Our income tax expense was US\$5.2 million for the six months ended March 31, 2010, representing an increase of 188.9% from US\$1.8 million for the six months ended March 31, 2009, which was primarily due to the increase in profit before taxation in subsidiaries. Except for certain subsidiaries which enjoyed different preferential tax rate, a statutory tax rate of 25% applied to the rest of the Group in the PRC.

PROFIT FOR THE PERIOD

Our profit for the six months ended March 31, 2010 was US\$8.5 million, representing an increase of US\$6.0 million, or 240%, from profit of US\$2.5 million for the six months ended March 31, 2009.

NON-CONTROLLING INTERESTS

Non-controlling interests were deficit of US\$0.3 million for the six months ended March 31, 2010, representing a decrease of US\$2.0 million from deficit of US\$2.3 million for the six months ended March 31, 2009, which was primarily due to decreased losses of some of the non-wholly owned subsidiaries for the period as compared with the corresponding period of last year.



MANAGEMENT DISCUSSION AND ANALYSIS

WORKING CAPITAL EFFICIENCY

The average inventory turnover days for the six months ended March 31, 2010 and the fiscal year ended September 30, 2009 were 111.8 days and 127.5 days respectively. The decrease was primarily due to various continued measures taken by the Group in liquidating excess inventory started from the second half of 2009 that the inventory level is currently returned to a reasonable level.

The average trade receivables turnover days for the six months ended March 31, 2010 and the fiscal year ended September 30, 2009 were 32.1 days and 40.4 days respectively. Average trade receivables turnover days remained consistent with the credit terms of 30 to 45 days that the Group granted to its department store counters and retail distributors.

The average trade and bill payables turnover days for the six months ended March 31, 2010 and the fiscal year ended September 30, 2009 were 38.5 days and 49.4 days respectively. The average trade and bill payables turnover days decreased as a result of our strategic use of capital to match the cash rebate policy offered by the brand companies in exchange for quicker payment for merchandise.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's cash and cash equivalents as at March 31, 2010 increased by 1.4% to US\$182.3 million from US\$179.8 million as at September 30, 2009. As at March 31, 2010, the working capital of the Group (current assets minus current liabilities) was US\$272.4 million, representing an increase of 17.7% compared with US\$231.4 million as at September 30, 2009.

As at March 31, 2010, the Group's current ratio was 169.9% as compared with 151.1% as at September 30, 2009, and the gearing ratio (total borrowings divided by total assets) was 22.6% as compared with 21.7% as at September 30, 2009.

The Group's bank borrowings consisted mainly of short term loans which roll over continuously upon maturity. As at March 31, 2010, our total bank borrowings increased by 2.0% to US\$279.8 million from US\$274.2 million as at September 30, 2009, of which US\$232.2 million are repayable within one year and US\$47.6 million are repayable more than one year but not exceeding three years. The bank borrowings were denominated mainly in Renminbi and cash and cash equivalents were mainly held in Renminbi as well.

For the six months ended March 31, 2010, net cash from operating activities was US\$29.8 million, as compared with US\$30.4 million for the six months ended March 31, 2009. We believe our liquidity requirement will be satisfied with a combination of the capital generated from operating activities and bank borrowings in the foreseeable future.



MANAGEMENT DISCUSSION AND ANALYSIS

Net cash used in investing activities for the six months ended March 31, 2010 was US\$26.2 million, as compared with US\$46.4 million for the six months ended March 31, 2009. During the period, capital expenditure of US\$9.5 million was used in the purchases of fixed assets, plant and equipment.

Net cash used in financing activities for the six months ended March 31, 2010 was US\$1.3 million, as compared with US\$18.9 million for the six months ended March 31, 2009. During the period, the Group had raised and repayment of bank borrowings of US\$230.5 million and US\$225.0 million respectively.

CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

As at March 31, 2010, the Group had capital commitments of US\$2.2 million and US\$1.5 million in respect of acquisition of property, plant and equipment and investments in jointly controlled entities respectively.

As at March 31, 2010, the Group had contingent liabilities of US\$30.4 million in related to guarantee given to banks in respect of banking facilities granted to jointly controlled entities.

FOREIGN EXCHANGE

The Group conducts its businesses primarily in the PRC with substantially all of its transactions denominated and settled in Renminbi. An appreciation or depreciation between US dollars and Renminbi may result in translation gain or loss in our financial statements as US dollar is used as our reporting currency. As at March 31, 2010, the Group had no significant hedges for the foreign exchange.

PROSPECTS

Currently, many data and indications illustrate that the macro economy is gradually recovering from its trough in 2009. However, concerns over inflation prevails despite that the economy of China maintains its momentum of high growth, which may affected marginal consumption powers and inclinations of consumers. Furthermore, lag effects as a result of the over heated expansion of sportswear retailing industry before and after the Olympics lead the overall industry to a stage of re-adjustment. As a leading sportswear retailer in the industry, the Group still needs to intensify its efforts and speed to reform, inter alia, its overall organization, constitution and business model, in order to secure its mid- to long-term core competitiveness. As such, the Group will continue to act with prudence and implement the following strategies after taking into consideration of the general economic condition and its own operations so as to proactively strengthen our position as a leading sportswear retailer in the PRC.

- With our commitment to continuous growth, we will focus more on increasing productivity of existing outlets, such as innovative outlet model, as our major growth driver. Moreover, we will prudently expand new outlets and retail roadmap to maintain our economy of scale.



MANAGEMENT DISCUSSION AND ANALYSIS

- We plan to enhance our operational efficiency by continuing the measures such as rationalizing outlets distribution, optimizing inventory level, improving in-line products sell through ratio and other new plans such as streamlining our organizational structure to improve the overall operating performance.
- We will continuously identify opportunities to expand its brand licensee business with an aim of enriching its business portfolio and enhancing the growth niche of results in the future.
- We will continue to further develop our supply chain solutions with major brand companies, which can create initiative models that may improve operational efficiency, optimize inventory management and lower use of working capital during the relatively long operation cycle.

HUMAN RESOURCES

As at March 31, 2010, the Group had a total of 26,454 employees. The Group reviews the performance of its employees periodically, which serves as a consideration basis in annual salary review and promotion appraisals. In order to remain competitive in the labor market, we also make reference to remuneration packages offered by peers in the industry. For our senior management, the Group reward its senior management with annual bonus based on various performance criteria. In addition, we also provide other benefits, such as social securities, mandatory retirement funds, medical coverage and training programs to employees based on their personal career development.

SHARE OPTION SCHEME

On January 21, 2010, the Company granted to certain participants options under which the holders are entitled to subscribe for ordinary shares of nominal value of HK\$0.01 each in the share capital of the Company pursuant to the Share Option Scheme at an exercise price of HK\$1.62 per share. The number of shares exercisable and subscribable pursuant to the options granted then was 64,500,000.



OTHER INFORMATION

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

As at March 31, 2010, the interests or short positions of the Directors and chief executives of the Company in the shares, underlying shares and debenture of the Company and its associated corporations, as recorded in the register required to be kept by the Company pursuant to Section 352 of the Securities and Future Ordinance ("SFO"), or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

Long Position

Name of Director	Beneficial owners	Number of ordinary shares			Total	Percentage of the issued share capital of the Company
		Held by spouse and/or children under 18	Held by controlled corporation	Held by a discretionary trust		
Ordinary shares of HK\$0.01 each of the Company						
Tsai David, Nai Fung	3,037,000	-	-	-	3,037,000	0.07%
Tsai Patty, Pei Chun	4,460,000	-	-	-	4,460,000	0.10%
Ordinary shares to be issued under the Share Option Scheme						
Chang Karen Yi-Fen*	3,800,000	-	-	-	3,800,000	0.09%

* The share options were granted on January 21, 2010 and the details of which was stipulated in the section "Share Option Scheme" in this interim report.



OTHER INFORMATION

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

The Company recognizes the importance of attracting talents and retaining employees by providing them with incentives and rewards through granting share-based incentives. The Company believes that this will align their interests with that of the Company. In this connection, the Company has maintained the Share Option Scheme for the employees, the details of which are stipulated as follows:

Share Option Scheme

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

During the period under review, a total of 64,500,000 options were granted to eligible participants of the Group and recognised an expense of US\$413,000 as equity-settled share-based payments.

Movements of the options, which were granted under the Share Option Scheme, during the period under review were listed below:

Category	Number of options held as at 01/10/2009	Date of grant	Number of options granted during the period	Number of options exercised during the period	Number of options cancelled/lapsed during the period	Number of options held as at 31/03/2010	Exercise price HK\$	Exercise period
Director								
Chang Karen Yi-Fen	0	21/01/2010	3,800,000	0	0	3,800,000	1.62	21/01/2011 to 20/01/2018
Employees								
	0	21/01/2010	60,700,000	0	750,000	59,950,000	1.62	21/01/2011 to 20/01/2018
	0		64,500,000	0	750,000	63,750,000		



OTHER INFORMATION

The closing price immediately before the date of which the options were granted was HK\$1.70 and the fair value, vesting schedule, exercise period of the options are as follows:

Vesting period	Exercise period	Percentage vesting	Fair value (per option) HK\$
21/01/2010 to 20/01/2011	21/01/2011 to 20/01/2018	15% of options granted	0.69
21/01/2010 to 20/01/2012	21/01/2012 to 20/01/2018	15% of options granted	0.72
21/01/2010 to 20/01/2013	21/01/2013 to 20/01/2018	30% of options granted	0.75
21/01/2010 to 20/01/2014	21/01/2014 to 20/01/2018	40% of options granted	0.78

The binomial option pricing model (the "Model") was adopted to value the share options granted during the review period. Under the Model, the underlying asset can take on only two possible discrete values in the next time period for each value that it can take on in the preceding time period. The value of an option varies with different variables of certain subjective assumptions. Any change in the variables as adopted may materially affect the estimation of the fair value of an option.

Specific assumptions were made in the Model in relation to risk free rate, volatility, dividend yield, life of options and trading days. Certain general assumptions relating to the political, legal, fiscal or economic conditions in the country or district where the business is in operation, taxation law, inflation, interest and currency exchange rate, key management and technical personnel, the existing state of the business and debts of the Company were also made.

The inputs into the Model were as follows:

Options granted on January 21, 2010

Date of grant (measurement date)	January 21, 2010
Closing price on the date of grant	HK\$1.62
Exercise price per share	HK\$1.62
Expected volatility	54%
Expected life of the option	vesting period plus one half of exercise period
Annual risk free rate	1.66% – 2.13%
Expected dividend yield	1%

The risk free rate is assumed to be equated to the yield of Hong Kong Exchange Fund Bills/Notes over the exercise period near the grant date.

It is expected the dividend yield of 1% will be paid in the future.



OTHER INFORMATION

The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share average prices of the Company and the listed companies with similar business over the past years immediately preceding the grant date. The calculation is based on the assumption that there is no material difference between the expected volatility over the whole life of the options and the historical volatility of the underlying shares.

Save as disclosed above, at no time during the period from October 1, 2009 to March 31, 2010 was the Company or any of its holding companies, fellow subsidiaries or subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at March 31, 2010, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that other than the interest disclosed above in respect of certain Directors and chief executives, the following shareholders had notified the Company of relevant interests in the issued share capital of the Company:

Name of Shareholder	Notes	Capacity/ Nature of interest	Number of ordinary shares held	Approximate percentage of interest in the issued share capital of the Company
Major Focus Management Limited ("Major Focus")	a	Beneficial interest	2,408,344,622	56.13%
Wealthplus Holdings Limited ("Wealthplus")	b	Interest of a controlled corporation	2,408,344,622	56.13%
Yue Yuen Industrial (Holdings) Limited ("Yue Yuen")	a, b	Beneficial Interest	2,408,344,622	56.13%
Pou Chen Corporation ("PCC")	b	Interest of a controlled corporation	2,408,344,622	56.13%
Jollyard Investments Limited ("Jollyard")	c	Beneficial interest	216,945,000	5.06%
Sitori Trading Limited ("Sitori Trading")	c	Interest of a controlled corporation	216,945,000	5.06%
Shih Ching-I	c	Interest of a controlled corporation	216,945,000	5.06%



OTHER INFORMATION

Notes:

All the Shares are long positions.

- a. 2,408,344,622 shares are held by Major Focus, a wholly-owned subsidiary of Yue Yuen.
- b. PCC is deemed to be interested in these Shares under the SFO by virtue of its interests in more than one third of the voting shares in Wealthplus, which in turn is deemed to be interested in these Shares under the SFO by virtue of its interests in more than one third of the voting shares in Yue Yuen. Wealthplus is wholly owned by PCC and is interested in 46.55% of the issued share capital of Yue Yuen. Mr. Tsai David, Nai Fung and Ms. Tsai Patty, Pei Chun who are Directors are also directors of Wealthplus. Mr. Tsai David, Nai Fung who is a Director is also a director of PCC. Mr. Tsai David, Nai Fung, Ms. Tsai Patty, Pei Chun and Ms. Kuo, Li-Lien who are Directors are also directors of Yue Yuen.
- c. These shares are held by Jollyard. Jollyard is wholly-owned by Sitori Trading, which is in turn wholly-owned by Ms. Shih Ching-l.

34

Save as disclosed above, as at March 31, 2010, the Directors were not aware of any other person (other than Directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were required, pursuant to Section 336 of the SFO, to be entered into the register referred to therein.

UPDATE ON DIRECTORS' INFORMATION UNDER RULE 13.51B(1) OF THE LISTING RULES

The salary of Ms. Chang Karen Yi-Fen ("Ms. Chang"), the Chief Executive Officer and Executive Director of the Company, was increased from US\$120,000 per annum to US\$180,000 per annum with effect from January 1, 2010. Besides that, Ms. Chang was appointed as a director of Winning Team Holdings Limited, a subsidiary of the Company incorporated in the British Virgin Islands, on February 23, 2010.

On March 3, 2010, Mr. Hu Sheng-Yih, an Independent Non-executive Director of the Company, was appointed Chairman of the remuneration committee of the Company in place of Ms. Kuo, Li-Lien, a Non-executive Director of the Company.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended March 31, 2010, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company.



OTHER INFORMATION

REVIEW OF ACCOUNTS

Disclosure of financial information in this announcement complies with Appendix 16 of the Listing Rules. The audit committee of the Company has reviewed the accounting principles and practices adopted by the Group and in the course have discussed with the management, the internal controls and financial reporting matters related to the preparation of the unaudited condensed consolidated financial statements for the six months ended March 31, 2010.

The external auditor has reviewed the interim financial information for the six months ended March 31, 2010 in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

CORPORATE GOVERNANCE

For the six months ended March 31, 2010, the Company has applied the principles of and has complied with all code provisions set out in the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 to the Listing Rules, except for deviation from provision A.2.1 of the Code as disclosed in the annual report 2009 of the Company.

After the resignation of Mr. Liu Wen Xin as Chief Executive Officer of the Company, Mr. Tsai David, Nai Fung, the Chairman of the Company, has assumed the role of acting Chief Executive Officer on June 19, 2009 on a temporary basis until Ms. Chang Karen Yi-Fen, the Chief Financial Officer of the Company and Executive Director, was appointed as the new Chief Executive Officer of the Company with effect from January 1, 2010. As there was no segregation between the role of the Chairman and Chief Executive Officer of the Company during the period from June 19, 2009 to December 31, 2009, this constituted deviation from provision A.2.1 of the Code which stipulates that the roles of chairman and chief executive officer should be separated and should not be the same individual.

During the period of assuming the dual roles as Chairman and acting Chief Executive Officer of the Company by Mr. Tsai David, Nai Fung, an executive committee consisting of members of the management was formed to oversee different business segments of the Group. As the Chairman and acting Chief Executive Officer of the Company, Mr. Tsai David, Nai Fung was responsible for the Group's overall management and strategic planning, including sales and marketing activities and on a temporary basis overseeing the overall strategies, planning and day-to-day operation and management of the Group. Since it was on a temporary measure while the Company was actively searching for a replacement to fill in the permanent position of Chief Executive Officer who would be responsible for the day to day operation and management of the Group, the Board does not consider that this structure had impaired the balance of power and authority between the Board and the management of the Company given there is a division of responsibility for each of the individual business operations of the Group.



OTHER INFORMATION

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as the Company's code of conduct for dealings in securities of the Company by Directors. All Directors have confirmed, following specific enquiry by the Company that they have complied with the required standard set out in the Model Code throughout the six months ended March 31, 2010.

ACKNOWLEDGEMENT

I would like to take this opportunity to express our sincere appreciation of the support from our customers, suppliers and shareholders. I would also like to thank my fellow Directors for their valuable contribution and the staff members of the Group for their commitment and dedicated services throughout the period.

DIRECTORS

As at the date of this report, Mr. Tsai David, Nai Fung is the Chairman and Non-executive Director; Ms. Chang Karen Yi-Fen is the Chief Executive Officer and Executive Director; Ms. Tsai Patty, Pei Chun and Ms. Kuo, Li-Lien are the Non-executive Directors; and Mr. Chen Huan-Chung, Mr. Hu Sheng-Yih, Mr. Mak Kin Kwong and Mr. Cheng Ming Fun Paul are the Independent Non-executive Directors.

By Order of the Board
Tsai David, Nai Fung
Chairman

Hong Kong, June 15, 2010

Website: www.pousheng.com