胜道
YYSPORTS

Pou Sheng International (Holdings) Limited

寶勝國際(控股)有限公司

(incorporated in Bermuda with limited liability)

Stock Code: 3813

Interim Report 2008

Contents

Group Financial Highlights

	For the six months ended March 31, 2008	2007	Percentage increase
Revenue *(US$'000)*	**419,627**	235,288	78.3%
Profit attributable to equity holders of the Company *(US$'000)*	**34,062**	14,974	127.3%
Basic earnings per share *(US cents)*	**1.80**	1.40	28.6%

Interim Results

The directors (the "Directors") of Pou Sheng International (Holdings) Limited (the "Company") are pleased to announce the unaudited condensed combined results of the Company and those companies that became subsidiaries of the Company on May 23, 2008 (together with the Company hereinafter collectively referred to as the "Group") for the six months ended March 31, 2008 with comparative figures for the corresponding period in 2007 as follows:

CONDENSED COMBINED INCOME STATEMENT

		For the six months ended March 31,	
		2008	2007
	Notes	***US$'000***	*US$'000*
		(unaudited)	*(unaudited)*
Revenue	*4*	**419,627**	235,288
Cost of sales		**(261,965)**	(148,812)
Gross profit		**157,662**	86,476
Other income		**15,597**	9,078
Selling and distribution expenses		**(103,503)**	(51,819)
Administrative expenses		**(31,171)**	(17,045)
Fair value changes on derivative financial instruments	*5*	**8,011**	—
Interest on bank borrowings wholly repayable within five years		**(8,416)**	(2,400)
Share of results of associates		**2,616**	449
Share of results of jointly controlled entities		**9,294**	—
Profit before taxation		**50,090**	24,739
Income tax expense	*6*	**(9,591)**	(5,560)
Profit for the period	*7*	**40,499**	19,179
Attributable to:			
Equity holders of the Company		**34,062**	14,974
Minority interests		**6,437**	4,205
		40,499	19,179
Earnings per share	*9*		
— Basic		**US1.80 cents**	US1.40 cents

CONDENSED COMBINED BALANCE SHEET

	Notes	At March 31, 2008 US$'000 (unaudited)	At September 30, 2007 US$'000 (audited)
Non-current assets			
Property, plant and equipment	10	**151,690**	102,056
Deposit for acquisition of property, plant and equipment	10	**4,822**	13,286
Prepaid lease payments		**5,410**	5,169
Goodwill		**2,101**	2,101
Interests in associates		**14,617**	10,922
Loan to an associate		**2,852**	—
Interests in jointly controlled entities		**48,432**	33,036
Loans to jointly controlled entities		**68,393**	39,915
Rental deposits and prepayments		**26,735**	21,797
		325,052	228,282
Current assets			
Inventories		**180,546**	112,375
Trade and other receivables	11	**183,967**	101,596
Prepaid lease payments		**128**	125
Derivative financial instruments	12	**68,730**	—
Amounts due from related parties		**7,265**	20,616
Pledged bank deposits		**3,112**	—
Bank balances and cash		**160,472**	90,936
		604,220	325,648
Current liabilities			
Trade and other payables	13	**104,805**	114,458
Taxation payable		**13,085**	9,101
Option Premium Payables	12	**60,719**	—
Amounts due to related parties		**159,402**	112,382
Unsecured bank borrowings	14	**314,923**	105,327
Bank overdrafts		**5,879**	—
		658,813	341,268
Net current liabilities		**(54,593)**	(15,620)
Total assets less current liabilities		**270,459**	212,662
Non-current liability			
Unsecured bank borrowings	14	**9,983**	25,273
Net assets		**260,476**	187,389
Capital and reserves			
Share capital and paid up capital	15	**65,488**	53,488
Reserves		**134,005**	84,929
Equity attributable to equity holders of the Company		**199,493**	138,417
Minority interests		**60,983**	48,972
Total equity		**260,476**	187,389

CONDENSED COMBINED STATEMENT OF CHANGES IN EQUITY

	Equity attributable to equity holders of the Company							
	Share capital and paid up capital *US$'000* *(Note 15)*	**Share premium** *US$'000*	**Non-distributable reserve** *US$'000* *(Note)*	**Translation reserve** *US$'000*	**Accumulated profits** *US$'000*	**Total** *US$'000*	**Minority interests** *US$'000*	**Total** *US$'000*
At October 1, 2006	17,101	—	2,325	1,945	14,997	36,368	15,294	51,662
Exchange difference arising on the translation of foreign operations recognized directly in equity	—	—	—	1,228	—	1,228	499	1,727
Profit for the period	—	—	—	—	14,974	14,974	4,205	19,179
Total recognized income for the period	—	—	—	1,228	14,974	16,202	4,704	20,906
Incorporation/establishment of subsidiaries	20	30,781	—	—	—	30,801	13,200	44,001
Acquisition of additional interests in subsidiaries	—	—	—	—	—	—	(4,677)	(4,677)
Repatriation of capital	—	—	—	—	—	—	(160)	(160)
Dividend paid to minority shareholder of a subsidiary	—	—	—	—	—	—	(365)	(365)
Transfer	—	—	726	—	(726)	—	—	—
At March 31, 2007	17,121	30,781	3,051	3,173	29,245	83,371	27,996	111,367
Exchange difference arising on the translation of foreign operations recognized directly in equity	—	—	—	1,726	—	1,726	1,046	2,772
Profit for the period	—	—	—	—	16,953	16,953	7,982	24,935
Total recognized income for the period	—	—	—	1,726	16,953	18,679	9,028	27,707
Acquisition of business	—	—	—	—	—	—	4,883	4,883
Incorporation/establishment of subsidiaries	36,367	—	—	—	—	36,367	7,065	43,432
Transfer	—	—	3,404	—	(3,404)	—	—	—
At September 30, 2007	53,488	30,781	6,455	4,899	42,794	138,417	48,972	187,389
Exchange difference arising on the translation of foreign operations recognized directly in equity	—	—	—	15,014	—	15,014	5,574	20,588
Profit for the period	—	—	—	—	34,062	34,062	6,437	40,499
Total recognized income for the period	—	—	—	15,014	34,062	49,076	12,011	61,087
Incorporation/establishment of subsidiaries	12,000	—	—	—	—	12,000	—	12,000
Transfer	—	—	2,680	—	(2,680)	—	—	—
At March 31, 2008	65,488	30,781	9,135	19,913	74,176	199,493	60,983	260,476

Note: According to the relevant laws in the People's Republic of China (the "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.

CONDENSED COMBINED CASH FLOW STATEMENT

	For the six months ended March 31,	
	2008	2007
	US$'000	*US$'000*
	(unaudited)	*(unaudited)*
Net cash used in operating activities	**(109,768)**	(20,782)
Net cash used in investing activities		
Purchase of property, plant and equipment	**(41,767)**	(13,783)
Advance to jointly controlled entities	**(25,667)**	—
Investments in jointly controlled entities	**(3,229)**	—
Advance to an associate	**(2,852)**	—
Investments in associates	**(342)**	(470)
Acquisition of additional interest in subsidiaries	**—**	(4,677)
Other investing cash flows	**9,825**	236
	(64,032)	(18,694)
Net cash from financing activities		
Bank borrowings raised	**260,104**	81,739
Advances from related parties	**39,106**	46,429
Proceeds from issues of shares and paid up capital	**12,000**	30,801
Repayment of bank borrowings	**(66,389)**	(100,159)
Dividend paid to a minority shareholder of a subsidiary	**—**	(365)
Capital contributed by minority shareholders of subsidiaries	**—**	13,200
Other financing cash flows	**(8,416)**	(160)
	236,405	71,485
Net increase in cash and cash equivalents	**62,605**	32,009
Effect of foreign exchange rate changes	**6,404**	197
Cash and cash equivalents brought forward	**85,584**	44,297
Cash and cash equivalents carried forward	**154,593**	76,503
Analysis of the balances of cash and cash equivalents:		
Bank balances and cash	**160,472**	76,503
Bank overdrafts	**(5,879)**	—
	154,593	76,503

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1. General Information and Group Reorganization

The Company was incorporated in Bermuda under the Companies Act as an exempted company with limited liability on November 14, 2007. The Company's shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since June 6, 2008. Its immediate holding company is Major Focus Management Limited, an exempted company incorporated in British Virgins Islands with limited liability. Its ultimate holding company is Yue Yuen Industrial (Holdings) Limited ("Yue Yuen"), an exempted company incorporated in Bermuda with limited liability and its shares are listed on the Main Board of the Stock Exchange.

Through a group reorganization to rationalize the structure of the Company and its subsidiaries (the "Group") in preparation for the listing of the Company's shares on the Stock Exchange (the "Group Reorganization"), the Company became the holding company of the companies comprising the Group from May 23, 2008 onwards. Details of the Group Reorganization are more fully explained in the prospectus of the Company dated May 26, 2008 (the "Prospectus").

The Company is an investment holding company. Its subsidiaries are engaged in manufacturing business, retail business, brand licensee business, and property leasing and management business.

2. Basis of Preparation of Condensed Combined Financial Statements

The Group resulting from the Group Reorganization continues to be controlled by Yue Yuen and is therefore regarded as a continuing entity. Hence, the Directors of the Company consider that the combined financial statement be provide meaningful information in regards to the historical performance of the companies now comprising the Group. Accordingly, for the purpose of this report, the condensed combined income statement, condensed combined cash flow statement, and condensed combined statement of change in equity of the Group for the six months ended March 31, 2008 and 2007 included the financial statements of the companies comprising the Group as if the Company had always been the holding company of the Group and in accordance with the respective equity interest in the individual companies attributable to Yue Yuen at March 31, 2008 and 2007 while the results of the companies comprising the Group attributable to the shareholders other than Yue Yuen were accounted for as minority interests.

The condensed combined balance sheet of the Group as at March 31, 2008 and September 30, 2007 have been prepared to present the assets and liabilities of the Group as if the group structure after the Group Reorganization had been in existence as at these dates and in accordance with the respective equity interest in the individual companies held by Yue Yuen at those dates.

The condensed combined 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 (the "Listing Rule") and with the Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by Hong Kong Institute of Certified Public Accountants ("HKICPA").

While the Group had net current liabilities of approximately US$54,593,000 as at March 31, 2008, subsequent to the balance sheet date, the Company's shares have been listed on the Main Board of the Stock Exchange and, raised net proceeds of approximately US$309 million from the global offering. In the opinion of the Directors, the cash flows from the Group's operations together with the net listing proceeds will provide adequate funds to enable the Group to meet in full its financial obligations as they fall due.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

3. Principal Accounting Policies

The condensed combined financial statements have been prepared on the historical costs basis except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

The accounting policies used in the condensed combined financial statements are consistent with those followed in the preparation of the Company's accountants' report as set out in the Prospectus for the three years ended September 30, 2007 and three months ended December 31, 2007.

In the current period, the Group has applied, for the first time, a number of new standards, amendments, and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Group's financial year beginning on October 1, 2007.

The adoption of these new HKFRSs has had no material effect on the results and financial position of the Group for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been recognized.

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

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[2]
HKAS 32 and HKAS 1 (Amendment)	Puttable Financial Instruments and Obligations Arising on Liquidation[1]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[1]
HKFRS 3 (Revised)	Business Combinations[2]
HKFRS 8	Operating Segments[1]
HK(IFRIC) – Int 12	Service Concession Arrangements[3]
HK(IFRIC) – Int 13	Customer Loyalty Programmes[4]
HK(IFRIC) – Int 14	HKAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[3]

[1] Effective for accounting periods beginning on or after January 1, 2009
[2] Effective for accounting periods beginning on or after July 1, 2009
[3] Effective for accounting periods beginning on or after January 1, 2008
[4] Effective for accounting periods beginning on or after July 1, 2008

The adoption of HKFRS 3 (revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after July 1, 2009. HKAS 27 (revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions. The Directors of the Company anticipate that the application of the other standards, amendments or interpretations will not have any material impact on the results and the financial position of the Group.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

4. Revenue and Segmental Information

BUSINESS SEGMENT

For management purposes, the Group is currently organized into the following operating divisions: (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").

These divisions are the basis on which the Group reports its primary segment information.

For the six months ended March 31, 2008

	Manufacturing Business *US$'000*	Retail Business *US$'000*	Brand Licensee Business *US$'000*	Property leasing and management *US$'000*	Eliminations *US$'000*	Combined *US$'000*
REVENUE						
External sales	48,140	279,163	91,423	901	—	419,627
Inter-segment sales	—	—	14,504	—	(14,504)	—
Total	48,140	279,163	105,927	901	(14,504)	419,627
RESULTS						
Segment results	5,553	16,641	19,536	(1,644)	—	40,086
Unallocated corporate income						1,395
Unallocated corporate expenses						(2,896)
Fair value changes on derivative financial instruments						8,011
Interest on bank borrowings wholly repayable within five years						(8,416)
Share of results of associates						2,616
Share of results of jointly controlled entities						9,294
Profit before taxation						50,090
Taxation						(9,591)
Profit for the period						40,499

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

4. Revenue and Segmental Information (continued)

BUSINESS SEGMENT (continued)

For the six months ended March 31, 2007

	Manufacturing Business *US$'000*	Retail Business *US$'000*	Brand Licensee Business *US$'000*	Property leasing and management *US$'000*	Eliminations *US$'000*	Combined *US$'000*
REVENUE						
External sales	31,081	152,273	51,934	—	—	235,288
Inter-segment sales	—	—	7,092	—	(7,092)	—
Total	31,081	152,273	59,026	—	(7,092)	235,288
RESULTS						
Segment results	4,297	10,707	11,756	—	—	26,760
Unallocated corporate income						968
Unallocated corporate expenses						(1,038)
Interests on bank borrowings wholly repayables within five years						(2,400)
Share of results of associates						449
Profit before taxation						24,739
Taxation						(5,560)
Profit for the period						19,179

GEOGRAPHICAL SEGMENTS

Over 90% of the Group's turnover and results were derived from the PRC. Accordingly, no geographical segment analysis is presented for the period.

5. Fair Value Changes on Derivative Financial Instruments

	For the six months ended March 31,	
	2008	2007
	US$'000	*US$'000*
Fair value changes on call options for acquisition of additional interests in subsidiaries, associates and jointly controlled entities *(note 12)*	**8,011**	—

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

6. Income Tax Expense

	For the six months ended March 31,	
	2008	2007
	US$'000	*US$'000*
Tax charge comprises:		
Current tax:		
Hong Kong Profits Tax	**485**	327
PRC Enterprise Income Tax	**8,073**	4,527
Overseas taxation	**1,033**	706
	9,591	5,560

Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profits for both periods.

PRC Enterprise Income Tax was calculated based on the statutory note of 33% of the assessable profit for those subsidiaries established in the PRC.

On March 16, 2007, the PRC promulgated the Law of the People's Republic of China on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of PRC. On December 6, 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations would impose a single income tax rate of 25% for all the enterprises from January 1, 2008, except for the following:

(i) 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. The tax holidays and concessions will expire between 2008 and 2010.

(ii) 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》and 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.

(iii) Pursuant to Income Tax Law of the PRC, Yusheng (Kunshan) Sports Goods Company Limited, a principal subsidiary of the Company operating in an approved economic and technology development zone of the PRC, is entitled to a preferential income tax rate of 15% and is exempted from 3% local income tax, when the annual revenue from manufacturing business amounts to over 50% of its total revenue in relevant fiscal years. A five year transitional period with a progressive tax rate from 15% to 25% has been granted from January 1, 2008. The preferential rate is subject to further annual confirmation to be obtained from the local tax bureau.

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

There was no significant unprovided deferred taxation for the period or at the balance sheet date.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

7. Profit for the Period

	For the six months ended March 31,	
	2008	2007
	US$'000	*US$'000*
Profit for the period has been arrived at after charging:		
Depreciation of property, plant and equipment	**8,019**	3,979
Release of prepaid lease payment	**47**	26
Research and development expenditure	**1,106**	607
Impairment loss on trade receivables	**437**	282
Allowance for inventories	**1,583**	225

8. Dividends

No dividend has been declared by the Company since the date of its incorporation.

9. Earnings Per Share

The calculation of the basic earnings per share is based on the profit attributable to equity holders of the Company for the period of US$34,062,000 (for the six months ended March 31, 2007: US$14,974,000) and on the weighted average number of 1,894,268,550 (for the six months ended March 31, 2007: 1,066,113,069) ordinary shares in issue assuming that the Group Reorganization had been effective on October 1, 2006.

The weighted average number of ordinary shares for the purpose of calculating basic earnings per share for the six months ended March 31, 2008 and 2007 has been retrospectively adjusted for the capitalization issue as described more fully in the paragraph headed "Resolutions of the Company's sole Shareholder passed on May 14, 2008" in Appendix VIII to the Prospectus.

No diluted earnings per share are presented as there were no potential dilutive ordinary shares in issue.

10. Movements in Property, Plant and Equipment/Deposits for Acquisition of Property, Plant and Equipment

During the period, the Group acquired property, plant and equipment of approximately US$41,767,000 (for the six months ended March 31, 2007: US$13,783,000).

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

11. Trade and Other Receivables

The Group has defined credit terms, ranging from 30 days to 90 days, which are agreed with each of its trade customers.

Included in trade and other receivables are trade and bills receivables of US$97,036,000 (September 30, 2007: US$67,150,000) and an aged analysis is as follows:

	At March 31, 2008 US$'000	At September 30, 2007 US$'000
0 to 30 days	**81,988**	56,974
31 to 90 days	**14,155**	9,172
Over 90 days	**893**	1,004
	97,036	67,150

12. Derivative Financial Instruments and Option Premium Payables

	At March 31, 2008 US$'000	At September 30, 2007 US$'000
Financial assets:		
Call options for acquisition of additional interests in subsidiaries, associates and jointly controlled entities *(note)*	**68,730**	—
Financial liabilities:		
Financial liabilities related to the option premium payables *(note)*	**60,719**	—

Note:

Call Options and Option Premium Payables

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

The Call Options are exercisable after the end of each profit evaluation period within five years commencing from the expiry of the first six months after dealing in the shares of the Company on the Stock Exchange commences. Each of the Relevant Partners has agreed not to transfer or dispose of its equity interest in the Relevant Companies during the Call Options exercisable period without the Group's prior written consent.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

12. Derivative Financial Instruments and Option Premium Payables (continued)

Note: (continued)

Pursuant to the Call Options agreements, the consideration for acquiring the Relevant Equity Interest is to be determined based on the actual profit of the Relevant Companies attributable to the Relevant Partners during the pre-determined evaluation period and the prevailing price earnings ratio of the Company at the time the Call Options are exercised 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 market price on the date the Call Options are exercised and after deducting the Option Premium Payables paid.

The Option Premium Payables is to be determined with reference to 15% of the agreed estimated consideration for the acquisition of the Relevant Equity Interests at the date of the Call Options agreement. The Option Premium Payables is to be settled by the issue of the shares in the Company and the numbers of the shares to be issued is to be determined with reference to the offering price upon the global offering of the Company's shares on the Stock Exchange. Pursuant to the supplemental agreements entered into by certain of the Relevant Partners, some of these partners have agreed to accept cash in lieu of the shares for part or in some cases, all of the Option Premium Payables that the Company agreed with each of them. The Option Premium Payables paid will not be refundable if the Group does not exercise the Call Options before expiry of the exercisable period.

The breakdown of the fair values of the Call Options and the financial liabilities related to the Option Premium Payables are as follows:

	Call Option			
	Subsidiaries US$'000	Associates US$'000	Jointly-controlled entities US$'000	Total US$'000
Derivative assets:				
At initial recognition	540	13,053	50,189	63,782

	Option Premium Payables			
	Subsidiaries US$'000	Associates US$'000	Jointly-controlled entities US$'000	Total US$'000
Derivative liabilities:				
At initial recognition	540	13,053	50,189	63,782

The value of each of (i) the Call Options and (ii) the Option Premium Payables were valued by Savills Valuation and Professional Services Limited, an independent valuer, at the issue date and at March 31, 2008 using the (i) the Binomial Model and (ii) estimated earnings of the Relevant Companies and estimated price earning ratio of the Company, respectively.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

12. Derivative Financial Instruments and Option Premium Payables (continued)

Note: (continued)

The inputs into the model were as follows:

	At date of issue	*At March 31, 2008*
Derivative assets — Call Options:		
Expected price earning ratio	*30*	*28*
Expected volatility — Company	*44%*	*44%*
Expected volatility — Profit of the Relevant Companies	*28%*	*28%*
Risk free rate	*4.13%*	*3.85%*
Expected exercise period	*5 years*	*5 years*
Expected dividend yield	*Nil*	*Nil*
Financial liabilities — Option Premium Payables:		
Expected price earning ratio	*30*	*28*
Risk free rate	*4.13%*	*3.90%*
Expected IPO date	*31.3.08*	*31.5.08*

Expected volatility was measured at the standard deviation of expected share price returns based on statistical analysis of daily share average prices of comparable companies with similar business over the past years immediately preceding the grant dates. The expected life of the Call Options used in the model represents management's best estimate, taking into account of non transferability, exercise restrictions and behavioral consideration.

13. Trade and Other Payables

Included in trade and other payables are trade and bills payables of US$75,944,000 (September 30, 2007: US$81,311,000) and an aged analysis is as follows:

	At March 31, 2008	At September 30, 2007
	US$'000	*US$'000*
0 to 30 days	**48,618**	55,534
31 to 90 days	**18,002**	19,607
Over 90 days	**9,324**	6,170
	75,944	81,311

14. Unsecured Bank Borrowings

During the period, the Group obtained bank borrowings for a sum of US$260 million. The borrowings bear interest at the prevailing market rates, including HIBOR, LIBOR and PBOC rate plus margin ranging from 3.72% to 8.22% (September 30, 2007: 5.25% to 7.29%). The proceeds were used to meet short term expenditure needs and to finance the daily operation of the Group.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

15. Share Capital and Paid up Capital

THE COMPANY

	Number of shares	Amount
		HK$'000
Ordinary shares of HK$0.01 each		
authorized:		
On the date of incorporation and at March 31, 2008	10,000,000	100
Issued and fully paid:		
Allotted and issued at nil paid on the date of incorporation and at March 31, 2008	1	—

The Company was incorporated on November 14, 2007 with an authorized capital of HK$100,000, divided into 10,000,000 shares of HK$0.01 each. At the date of incorporation, 1 share of HK$0.01 was issued at nil consideration to the shareholder of the Company.

Because the Group Reorganization was only completed on May 23, 2008, the balance of share capital at September 30, 2007 and March 31, 2008 represents the aggregate of the share capital and paid up capital of the subsidiaries comprising the Group held directly by Yue Yuen prior to the Group Reorganization.

16. Commitments

The Group had the following commitments:

	At March 31, 2008	At September 30, 2007
	US$'000	*US$'000*
Capital expenditure contracted for but not provided in the condensed combined financial statements in respect of:		
— acquisition of property, plant and equipment	**11,222**	8,206
Other commitments contracted for but not provided in the condensed combined financial statements in respect of:		
— capital investment in associates	**5,439**	5,414
— capital investment in jointly controlled entities	**1,911**	6,874
	7,350	12,288
	18,572	20,494

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

16. Commitments (continued)

SHARE SWAP ARRANGEMENT

On January 8, 2008, the Group entered into a share swap arrangement ("Share Swap Arrangement") with the minority shareholder of a subsidiary in which the Group has 90% equity interest. Pursuant to this arrangement, the Group has the contractual right to acquire the remaining 10% equity interest in the subsidiary on the condition of the listing of the Company's shares on the Stock Exchange (the "Listing") by issuing shares in the Company as consideration. The consideration is determined based on the pre-determined formula involving a number of variables at the date of the agreement and it shall be settled by the issue of shares in the Company and the number of shares to be issued is to be determined with reference to the price of the global offering. The Share Swap Agreement was completed on June 5, 2008.

17. Post Balance Sheet Events

Subsequent to March 31, 2008, the following significant events took place:

(a) On April 9, 2008, the Group entered into three additional call option agreements with the shareholders of the Group's subsidiaries and jointly controlled entity. Details of these arrangements are similar to those set out in note 12 to the condensed combined financial statements.

(b) On May 14, 2008, shareholder's resolutions were passed to approve the matters in the paragraph headed "Resolutions of the Company's sole Shareholder passed on May 14, 2008" in Appendix VIII to the Prospectus.

(c) In preparing for the listing of the Company's shares on the Stock Exchange, the companies now comprising the Group underwent the Group Reorganization to rationalize the group structure. As a result of the Group Reorganization, the Company became the holding company of the Group on May 23, 2008. Details of the Group Reorganization and other changes are set out in Appendix VII to the Prospectus.

(d) On June 5, 2008, the Company issued 94,978,000 ordinary shares related to the financial liabilities related to the Call Option Premium and Share Swap Arrangement and the remaining consideration of US$17,315,000 are to be settled by cash.

(e) On June 6, 2008, the Company's shares were listed on the Main Board of the Stock Exchange.

Management Discussion and Analysis

Capitalized terms used in this section have the same meanings as defined in the Prospectus.

INTERIM DIVIDEND

The Directors do not propose any interim dividend for the six months ended March 31, 2008.

FINANCIAL HIGHLIGHTS AND BUSINESS REVIEW

Highlights

- Successfully listed on the Main Board of the Stock Exchange on June 6, 2008

When compared to the last corresponding period:

- Revenue rose by 78.3% to US$419.6 million
- Gross profit increased by 82.3% to US$157.7 million
- Profit attributable to equity holders of the Company increased by 127.3% to US$34.1 million
- Basic earnings per share increased by 28.6% to 1.80 US cents
- Net profit margin increased by 1.5% points to 9.65% points

Business Overview

The PRC sportswear market has expanded rapidly in recent years driven by the nation's robust economic growth, rising disposable income per capita and increasing interest in sports activities. According to the market research conducted by Frost and Sullivan, the PRC sportswear market has expanded rapidly at a CAGR of 30.8% over the past five years, and is expected to grow at 21.3% over the next five years. The same market research also projects the sportswear expenditure per capita in the PRC to grow the fastest among other major countries over the next few years.

As a leading sportswear retailer in the PRC, we are well positioned to seize this market opportunity through our leading sportswear retail distribution network. As at March 31, 2008, we, together with our Regional Joint Ventures, operated a total of 3,881 directly operated retail outlets across almost every province in the PRC.

For our retail business, we distribute a wide range of sportswear products including footwear, apparel and accessories for some of the leading international and domestic sportswear brands to the end customers through our directly operated retail outlets, and also to retail sub-distributors on a wholesale basis, who in turn sell the products through their retail outlets under our supervision.

As part of our expansion strategy to extend the reach of our retail network, we have established Regional Joint Ventures in different regions in the PRC with partners who we believe are leading retail players in their respective regional markets. Our Regional Joint Ventures operate their retail business under a model similar to ours.

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 the retail price of products under the licensed brands in specified geographical locations within the Greater China Region for a specified period of time.

In addition, we manufacture for five brands at our Taicang factory, namely *Li Ning*, *ANTA*, *Umbro*, *Kappa* and *361°*, solely for sale to our OEM/ODM customers.

To further support our retail network expansion, our property leasing and management business has a dedicated unit that acquires or leases large scale retail spaces in attractive locations which are then sub-divided and leased to us or third party retail distributors.

We have been monitoring the operations and financials of our Regional Joint Ventures closely and for the six months ended March 31, 2008, our Regional Joint Ventures taken in aggregate have performed up to our expectations.

Financial Review

Despite the impact of the severe snowstorm that struck the PRC at the beginning of 2008, we delivered strong growth and have further strengthened our position in the PRC sportswear retail market. During the six months ended March 31, 2008, we achieved revenue of US$419.6 million, and net profit before minority interests of US$40.5 million, representing growth rate of 78.3% and 110.9% from the six months ended March 31, 2007 respectively; moreover, benefiting from the implementation of our powerful IT system and introduction of our best practices, our Regional Joint Ventures showed strong performance and contributed total net profit before minority interests of US$11.9 million, accounting for approximately 29.4% of our combined profit for the six months ended March 31, 2008.

REVENUE

Our combined revenue increased by 78.3% to US$419.6 million for the six months ended March 31, 2008 from US$235.3 million for the six months ended March 31, 2007. This increase was primarily due to the continued growth of our retail, brand licensee and manufacturing businesses.

Retail Business. Revenue from our retail business increased by 83.3% to US$279.2 million for the six months ended March 31, 2008, from US$152.3 million for the six months ended March 31, 2007. This increase was primarily due to higher sales as a result of the increase in the number of directly operated retail outlets. The number of our directly operated retail outlets increased to 1,694 as at March 31, 2008, from 913 as at March 31, 2007. In addition, for the six months ended March 31, 2008 we maintained same store sales growth of approximately 20% over the same period in 2007. Revenue generated by sales to retail sub-distributors increased by 98.9% to US$56.1 million for the six months ended March 31, 2008, from US$28.2 million for the six months ended March 31, 2007.

Brand Licensee Business. Revenue from our brand licensee business increased by 76.1% to US$91.4 million for the six months ended March 31, 2008, from US$51.9 million for the six months ended March 31, 2007. This increase was primarily due to an increase in the number of retail outlets operated by our retail distributors and their sub-distributors, and the strong performance of our *Converse* brand licensee business.

Manufacturing Business. Revenue from our manufacturing business increased by 54.7% to US$48.1 million for the six months ended March 31, 2008, from US$31.1 million for the six months ended March 31, 2007. This increase was primarily due to the increase in the production capacity of our Taicang factory as we increased the number of production lines from ten to 15. The average sales prices for our manufactured products remained relatively stable in the review period.

Property Leasing and Management Business. Revenue from our property leasing and management business increased to US$0.9 million for the six months ended March 31, 2008, from nil for the six months ended March 31, 2007. We established this business in December 2006 to complement the variety of our retail channels, and began recognizing revenue after March 31, 2007.

COST OF SALES

Our cost of sales increased by 76.1% to US$262.0 million for the six months ended March 31, 2008, from US$148.8 million for the six months ended March 31, 2007. This increase was primarily due to the increase in sales in our retail and brand licensee business for the six months ended March 31, 2008 as compared to the same period in 2007. The increase was also attributable to an increase in fixed costs (such as cost of raw materials, direct labor and overhead costs) associated with the expansion in the number of production lines for our Taicang factory.

GROSS PROFIT AND GROSS PROFIT MARGIN

As a result of the factors listed above, our gross profit increased by 82.3% to US$157.7 million for the six months ended March 31, 2008, from US$86.5 million for the six months ended March 31, 2007. Our overall gross profit margin increased to 37.6% for the six months ended March 31, 2008 as compared to 36.8% for the six months ended March 31, 2007. The increase in gross profit margin was primarily due to gross profit margin improvements in our brand licensee and manufacturing businesses, while the margin of our retail business remained stable. The gross margins of our retail business and brand licensee business for the six months ended March 31, 2008 were 34.3% and 48.2%, respectively.

OTHER INCOME

Our other income was US$15.6 million for the six months ended March 31, 2008, representing an increase of US$6.5 million, or 71.4%, from US$9.1 million for the six months ended March 31, 2007. Our other income increased primarily due to an increase of US$1.4 million in the sale of store displays and related items due to an increase in the number of retail outlets under our brand licensee business, as well as an increase of US$1.3 million in cash discounts due to higher sales as result of our retail network expansion. Interest income from bank balances also increased by US$0.5 million due to higher amount of cash that Group had on hand. There was also tax return of US$2.2 million in the six months ended March 31, 2008.

SELLING AND DISTRIBUTION EXPENSES

Our selling and distribution expenses were US$103.5 million for the six months ended March 31, 2008, representing an increase of 99.8% from US$51.8 million for the six months ended March 31, 2007. The increase was due to increases in: (i) staff costs, which increased by 101.8% to US$20.0 million, primarily due to the increased bonus paid to our staff as a result of higher revenue; (ii) rental expenses, which increased by 79.0% to US$44.4 million, primarily due to the expansion in the number of our retail outlets; (iii) royalty expenses, which increased by 90.2% to US$9.9 million, primarily due to higher sales achieved by our brand licensee business; and (iv) advertising expenses, which increased by 76.8% to US$8.4 million to support the growth of our brand licensee business.

ADMINISTRATIVE EXPENSES

Our administrative expenses were US$31.2 million for the six months ended March 31, 2008, representing an increase of 83.5% from US$17.0 million for the six months ended March 31, 2007. The increase was primarily due to an increase of US$7.4 million, or 89.1% in staff costs, as a result of the increased salaries and bonuses paid to our management and administrative personnel as a result of better profit performance, an increase of US$2.2 million, or 256.9%, in depreciation and amortization expenses as a result of the depreciation of our corporate offices, as well as a US$1.3 million professional fee related to our listing on the Stock Exchange on June 6, 2008.

FAIR VALUE CHANGES ON DERIVATIVE FINANCIAL INSTRUMENTS

Fair value changes on call options and option premium payables were US$8.0 million for the six months ended March 31, 2008, increasing from nil for the six months ended March 31, 2007. In the second half of 2007, we began to enter into call option agreements with our joint venture partners. As of March 31, 2007, we had entered into call option agreements with our partners in 15 Regional Joint Ventures in which we have minority interests, and with the minority shareholders of three of our non-wholly owned subsidiaries.

INTEREST ON BANK BORROWINGS WHOLLY REPAYABLE WITHIN FIVE YEARS

Our finance costs were US$8.4 million for the six months ended March 31, 2008, representing an increase of 250.0% from US$2.4 million for the six months ended March 31, 2007. This was primarily as a result of an increase in the amount of the average monthly outstanding borrowings during the six months ended March 31, 2008.

SHARE OF RESULTS OF ASSOCIATES

Our share of results of associates were US$2.6 million for the six months ended March 31, 2008, representing an increase of 550.0% from US$0.4 million for the six months ended March 31, 2007. The increase was primarily because of the contribution from three of our associates, namely Farsighted International Limited, Zhejiang Baohong Sports Goods Company Limited and Shaanxi Wuhuan Shengdao Sports Production Development Company Limited.

SHARE OF RESULTS OF JOINTLY CONTROLLED ENTITIES

Our share of results of jointly controlled entities increased to US$9.3 million for the six months ended March 31, 2008, from nil for the six months ended March 31, 2007. The increase was due to the operations of our investments in 13 jointly controlled entities as at March 31, 2008. As of March 31, 2007, none of the joint ventures in which we had invested had commenced operations.

PROFIT BEFORE TAXATION

As a result of the factors listed above, our profit before taxation increased by 102.8% to US$50.1 million for the six months ended March 31, 2008, from US$24.7 million for the six months ended March 31, 2007.

TAXATION

Our taxation expense was US$9.6 million for the six months ended March 31, 2008, representing an increase of 71.4%, from US$5.6 million for the six months ended March 31, 2007, which was primarily due to an increase in profit before taxation. The effective tax rate decreased to 19.1% for the six months ended March 31, 2008, from 22.5% for the six months ended March 31, 2007.

PROFIT FOR THE PERIOD

As a result of the above factors, our profit for the six months ended March 31, 2008 was US$40.5 million, representing an increase of US$21.3 million, or 110.9%, from US$19.2 million for the six months ended March 31, 2007. Our net margins were 9.7% and 8.2% for the six months ended March 31, 2008 and 2007, respectively, the increase in which was primarily due to higher contribution from the results of jointly controlled entities and associates.

MINORITY INTERESTS

Minority interests were US$6.4 million for the six months ended March 31, 2008, representing an increase of 52.4% from US$4.2 million for the six months ended March 31, 2007. The increase was due to an increase in our profit after tax.

PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF OUR COMPANY

Our profit attributable to equity holders of the Company was US$34.1 million for the six months ended March 31, 2008, representing an increase of US$19.1 million, or 127.3%, from US$15.0 million for the six months ended March 31, 2007.

WORKING CAPITAL EFFICIENCY

The average inventory turnover days for the six months ended March 31, 2008 and 2007 were 102.0 days and 78.5 days respectively. The increase was primarily due to the effects of the snowstorm on our retail business.

The average trade receivables turnover days for the six months ended March 31, 2008 and 2007 were 35.7 days and 36.1 days respectively. Average trade receivables turnover days remained consistent with the credit terms of 30 to 45 days that the Group grants to its department store counters.

The average trade and bill payables turnover days for the six months ended March 31, 2008 and 2007 were 54.8 days and 36.1 days respectively. Average trade and bill payables turnover days increased due to an increase in use of acceptance drafts to settle product purchases that typically leads to longer credit terms.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's cash and cash equivalents as at March 31, 2008 rose 33.5% to US$160.5 million from US$120.2 million as at December 31, 2007. As at March 31, 2008, the working capital of the Group was negative US$54.6 million, a decline from negative US$44.5 million as at December 31, 2007.

As at March 31, 2008, the Group's current ratio was 91.7%, compared to 91.4% as at December 31, 2007 and gearing ratio stood at a level of 35.6%, compared to 30.7% as at December 31, 2007. The Group's total borrowings at as March 31, 2008 increased 41.2% to US$330.8 million from US$234.3 million as at December 31, 2007, primarily as a result of additional bank borrowings raised to fund working capital needs due to retail network expansion, as well as the expansion of the property leasing and management business. We intend to use a portion of the net proceeds from our Initial Public Offering to repay the entire balance of the additional borrowings and the bank borrowings that we borrowed for the purposes of providing shareholder's loans to some of our Regional Joint Ventures.

During the review period, net cash outflow from operating activities was US$109.8 million, as compared to US$20.8 million net cash outflow from the same period last year. The net cash outflow for the six months ended March 31, 2008 was primarily due to an increase in inventories as a result of the continued expansion of our retail business, and an increase in trade and other receivables mainly as a result of increased sales generated by our department store counters where we generally receive payments for our products within one month of the invoice date. These factors were partially offset by the substantial improvements in our profit before taxation for the six months ended March 31, 2008 compared to the same period in 2007.

Net cash used in investing activities for the six months ended March 31, 2008 was US$64.0 million compared to US$18.7 million for the same period last year. During the period, the Group invested approximately US$41.8 million, US$25.7 million and US$3.2 million on purchases of property, plant and equipment, advance to jointly controlled entities and investments in jointly controlled entities, respectively. This was partially offset by a US$14.8 million repayment from related parties.

Net cash generated from financing activities during the review period was US$236.4 million compared to US$71.5 million for the same period last year. During the period, the Group had inflows of US$260.1 million and US$39.1 million from bank borrowings raised and advances from related parties, respectively. This was partially offset by US$66.4 million of repayment of bank borrowings.

On June 6, 2008, the Company was successfully listed on the Main Board of the Stock Exchange and has received net proceeds of US$309 million, which further strengthened the Group's financial position.

CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

As at March 31, 2008, the Group had total capital commitments of US$11.2 million, US$5.4 million and US$1.9 million in respect of acquisition of property, plant and equipment, capital investment in associates and jointly controlled entities respectively.

As at March 31, 2008, the Group had no significant contingent liabilities.

Prospects

We aim to strengthen our position as a leading sportswear retailer in the PRC by implementing the following strategies.

CONTINUE TO EXPAND OUR RETAIL NETWORK AND BRAND PORTFOLIO

In our organic retail business we plan to continue to successfully establish new outlets, and to improve the operating efficiency of our existing outlets. We also intend to increase our market presence in emerging cities in the PRC, which we believe represent attractive opportunities for further expansion.

To capitalize on the rapid growth of the PRC retail sportswear industry, we need to expand quickly. We will continue to selectively acquire, invest in, or enter into partnerships with leading regional retailers that we believe will strengthen our existing market position, and allow us to quickly penetrate new markets. We have call options with 18 of our joint venture partners that give us the option to acquire the entire remaining interest and control, but only to joint ventures that perform up to standard. We believe this strong accretive acquisition pipeline will provide us with a visible source of growth over the next few years.

We also plan to increase the number and diversity of the brands and product lines that we carry to better address the preferences of our customers, enhance our competitiveness and increase the attractiveness of our sports complexes.

CONTINUE DEVELOPMENT OF AN END-TO-END SUPPLY CHAIN SOLUTION

Combining our powerful in-house IT capabilities, our retail network, and our manufacturing facilities in Taicang, our vision is to develop an end-to-end supply chain solution which we believe can lay the foundation for us to improve operational efficiency, optimize inventory levels, lower capital commitments, minimize discounting and hence maximize profitability. We are currently testing the end-to-end supply chain solution with selected brand companies.

Human Resources

As at March 31, 2008, the Group had a total of 23,568 employees. In addition to the mandatory retirement funds, insurance and medical coverage, the Group also offers training programs to its employees.

Share-Based Remuneration Schemes

The principal terms and conditions of the Pre-IPO Share Subscription Plan and the Share Option Scheme, which were conditionally approved by resolutions of the sole shareholder of the Company on May 14, 2008, are set out in the section headed "Share-Based Remuneration Scheme" in Appendix VII to the Prospectus. At the date of this report, no option has been granted under the Share Option Scheme. All invitations made and accepted under the Pre-IPO Share Subscription Plan were disclosed in the Prospectus. No further invitations may be made.

Other Information

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

As at March 31, 2008, none of the Company's directors, chief executives and their associates had an interest or short position in the shares or underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be maintained by the Company pursuant to Section 352 of the SFO, or as otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

SUBSTANTIAL SHAREHOLDERS

The Company was not listed as at March 31, 2008 and was not then required to maintain a register of substantial shareholders pursuant to section 336 of Part XV of the SFO.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Company was not listed during the six months ended March 31, 2008. Accordingly, there were no listed securities of the Company for purchase, sale or redemption in that period.

AUDIT COMMITTEE

The audit committee has reviewed with management and the external auditors the accounting principles and practices adopted by the Group and discussed auditing, internal controls, and financial reporting matters including the review of the unaudited interim financial statements.

CORPORATE GOVERNANCE

The Company was not listed during the six months ended March 31, 2008. Accordingly, the provisions of the Code on Corporate Governance Practices set out in Appendix 14 to the Listing Rules did not apply.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company was not listed during the six months ended March 31, 2008. Accordingly, the Model Code set out in Appendix 10 to the Listing Rules did not apply.

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 (Chairman and Non-executive Director), Mr. Huang Tsung Jen, Mr. Lee Chung Wen, Mr. Huang Chun Hua and Miss Chang Karen Yi-Fen are the Executive Directors, Mr. Ku Edward, Yu-Sun and Miss Tsai Pei Chun 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 20, 2008
Website: www.pousheng.com