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**POU SHENG INTERNATIONAL (HOLDINGS) LIMITED**

**寶勝國際（控股）有限公司**

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 3813)**

**DISCLOSEABLE TRANSACTION  
IN RELATION TO  
TERMINATION OF INVESTMENT IN JOINT VENTURE  
INVOLVING DISPOSAL OF  
45% EQUITY INTEREST IN  
HARBIN SHENGE SPORTS CHAIN COMPANY LIMITED**

On 12 August 2010, the Company's subsidiaries, the Dragonlight Entities, entered into the Termination Framework Agreement with Mr. Ye, Ms. Xing and Shenge under which the Dragonlight Entities agreed to terminate their investment in 45% equity interest in Shenge. On the same date, Dragonlight China, Mr. Ye, Ms. Xing and Shenge entered into the Equity Transfer Agreement pursuant to which Dragonlight China agreed to dispose of the 45% equity interest in Shenge held by it to Mr. Ye (as to 30% equity interest) and Ms. Xing (as to 15% equity interest) at a total consideration of RMB42,809,100. On the same date, the Dragonlight Entities, Mr. Ye, Ms. Xing and Shenge entered into the Call Option Termination Agreement pursuant to which the Call Option was terminated.

As the relevant percentage ratios (as defined in the Listing Rules) in respect of the Terminations are 5% or more but less than 25%, the entering into of the Transaction Documents constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules and is subject to the reporting and announcement requirements under Rule 14.34 of the Listing Rules.

## **TERMINATION FRAMEWORK AGREEMENT**

### **Date**

12 August 2010

### **Parties**

- (1) Dragonlight BVI
- (2) Dragonlight China
- (3) Mr. Ye
- (4) Ms. Xing
- (5) Shenge

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, Mr. Ye and Ms. Xing are third parties independent of the Company and its connected persons (as defined in the Listing Rules).

### **Summary of the principal terms of the Termination Framework Agreement**

The equity interest of Shenge is currently held as to 45% by Dragonlight China and as to the remaining 55% by Mr. Ye. Under the Termination Framework Agreement, the parties thereto agreed to terminate their cooperation regarding Shenge and to release each other from their obligations under the initial joint venture agreements entered into between themselves. In this regard, Dragonlight China has agreed to dispose of the 45% equity interest in Shenge held by it, of which 30% equity interest will be transferred to Mr. Ye and 15% equity interest will be transferred to Ms. Xing at a total consideration of RMB42,809,100 under the Equity Transfer Agreement dated 12 August 2010 entered into between Dragonlight China, Mr. Ye, Ms. Xing and Shenge. On the same date, Dragonlight China, Mr. Ye, Ms. Xing and Shenge entered into an Equity Buyback Agreement pursuant to the Termination Framework Agreement. Under the Equity Buyback Agreement, Mr. Ye and Ms. Xing agree to return an aggregate of 45% equity interest in Shenge to Dragonlight China at no consideration if Mr. Ye and Ms. Xing fail to pay to Dragonlight China within the specified time limit under the Termination Framework Agreement and the Equity Transfer Agreement the transfer consideration of RMB42,809,100. If Mr. Ye and Ms. Xing have paid some or all of the transfer consideration to Dragonlight China pursuant to the Equity Transfer Agreement, Dragonlight China will be required to pay to Mr. Ye and Ms. Xing a sum equivalent to the consideration received from them under the Equity Transfer Agreement as consideration for the return of such 45% equity interest in Shenge.

Under the Termination Framework Agreement, the joint venture parties have agreed to release each other from their obligations which remain unfulfilled under the initial joint venture agreements, in particular their obligations under a price adjustment mechanism regarding Shenge.

As disclosed in the Prospectus, under the price adjustment mechanism, if certain pre-agreed operating results of Shenge exceed their specified benchmarks, the Group will be required to make additional capital contributions to Shenge. On the other hand, if such benchmarks are not met, Mr. Ye will be required to compensate the Group by transferring a portion of his equity interest in Shenge to the Group. While the average actual annual net profit of Shenge during the three-year profit evaluation period was lower than the specified benchmark by approximately 1.7%, Mr. Ye was not required to compensate the Group by transferring a portion of his equity interest in Shenge to the Group under such price adjustment mechanism as the percentage of shortfall is less than 5%. In view of changes in sportswear market conditions in the PRC and adjustment of market strategies of the Group, the Group is of the view that it is an opportune time to dispose of the Group's interest in Shenge.

Despite the Terminations, pursuant to the Joint Sales Supplemental Agreement, Shenge and its associated corporations will give certain preferential treatment in the form of less concession to Dragonlight China and its associated corporations in their ordinary course of business on the condition that Dragonlight China and its associated corporations have met certain increase in sales amount every year, failing which the preferential treatment will be terminated. Shenge and its associated corporations will be required to pay a penalty to Dragonlight China and its associated corporations if Shenge breaches the agreement without reasonable reasons.

### **Consideration and payment terms**

The consideration which is payable to Dragonlight China in respect of the disposal of 45% equity interest in Shenge is RMB42,809,100 which represents 45% of the total registered capital of Shenge and agreed investment return for the term of the cooperation and will be settled in cash within 90 days upon completion of registration of the equity transfer. Pursuant to the Maximum Pledge Contract, Shenge agreed to create a pledge over its assets with a maximum value of RMB80,000,000 as security for the obligations of Mr. Ye and Ms. Xing to pay the consideration of RMB42,809,100 to Dragonlight China.

During the term of the cooperation, Dragonlight China:

- (a) extended a loan of RMB30,000,000 to Shenge;
- (b) arranged for entrusted loans to be extended to Shenge in the aggregate principal amount of RMB36,190,100 ("Old Entrusted Loan"); and
- (c) provided guarantee to the extent of 45% of bank borrowings to Shenge in the principal amount of RMB120,000,000 in favour of a commercial bank.

Under the Termination Framework Agreement, the following arrangements have been agreed:

- (i) Shenge shall repay the RMB30,000,000 loan to Dragonlight China on the drawdown date of the New Entrusted Loan (as defined below);
- (ii) upon execution of the Termination Framework Agreement, Dragonlight China will arrange for an entrusted loan in the aggregate principal amount of RMB66,190,100 (“New Entrusted Loan”), which will be used by Shenge to repay the RMB30,000,000 loan to Dragonlight China referred to in (a) above and to settle (b) the Old Entrusted Loan. The New Entrusted Loan shall bear interest with reference to the basic lending rate issued by the People’s Bank of China for term loan of less than six months and shall be repaid within three months from the date of drawdown of the New Entrusted Loan. In addition, (i) Mr. Ye will create a pledge over his 55% equity interest in Shenge pursuant to the Equity Pledge Agreement, and (ii) Shenge will provide a guarantee with up to RMB80,000,000 of its assets as security for the New Entrusted Loan pursuant to the Maximum Pledge Contract, and (iii) Mr. Ye and Ms. Xing will provide their personal guarantee to Dragonlight Entities as security for the New Entrusted Loan pursuant to the Joint Responsibility Guarantee. The New Entrusted Loan is needed as there is a time gap between settlement of aforesaid loans to Dragonlight China and drawdown of potential new funding which Shenge is arranging; and
- (iii) in relation to the guarantee provided by Dragonlight China in respect of RMB120,000,000 bank borrowings to Shenge, Shenge shall deposit with the commercial bank a sum sufficient to repay all the principal and interest of the guaranteed bank loans prior to registration of the equity transfer to ensure that all the principal and interest of the guaranteed bank loans will be repaid and the relevant bank guarantee provided by Dragonlight China will be released upon disposal of 45% equity interest in Shenge held by Dragonlight China.

Mr. Ye will also pledge his 55% equity interest in Shenge as security for the payment of consideration in respect of the disposal of 45% equity interest in Shenge held by Dragonlight China.

In addition, Shenge agrees to settle certain outstanding payment for miscellaneous payable owed by Shenge to Dragonlight Entities and its subsidiaries as at 1 July 2010 prior to registration of the disposal of 45% equity interest in Shenge held by Dragonlight China.

The consideration under the Terminations was arrived at after arm’s length negotiations between the Group, Mr. Ye and Ms. Xing with reference to the amount of the registered capital of Shenge and the agreed investment return for the term of the cooperation after taking into account the financial position of Mr. Ye and Ms. Xing. After the Terminations, the Group will cease to hold any interest in Shenge. The Company intends to apply the proceeds from the Terminations for general working capital purpose.

## **TERMINATION OF CALL OPTION**

As disclosed in the Prospectus, the Group entered into call option arrangement with Mr. Ye under which the Group was granted a call option to acquire from Mr. Ye his 55% equity interest in Shenge. Such call option may be exercised by the Group within five years commencing from the expiry of the first six months of Listing. The premium paid to Mr. Ye in respect of his granting such Call Option involved Shares (“Call Option Premium”). Mr. Ye and Ms. Xing have agreed, under the Call Option Termination Agreement to deliver to a third party the entire Call Option Premium prior to completion of registration of the 45% equity transfer from Dragonlight China to Mr. Ye and Ms. Xing. It is intended that these Shares will be disposed of and the proceeds will be given to the Company. The Call Option will be terminated under the Call Option Termination Agreement.

## **INFORMATION ON THE COMPANY AND THE DRAGONLIGHT ENTITIES**

The Company is an investment holding company and is a subsidiary of Yue Yuen. The Company and its subsidiaries are a leading sportswear retailer in the PRC and are engaged in retail business, brand licensee business, manufacturing business, and property leasing and management business. Dragonlight China is a direct wholly-owned subsidiary of Dragonlight BVI which in turn is an indirect wholly-owned subsidiary of the Company. The Company holds the 45% equity interest in Shenge through its holding in the Dragonlight Entities.

## **INFORMATION ON SHENGE, MR. YE AND MS. XING AND REASONS FOR AND BENEFITS OF THE TERMINATIONS**

Shenge is principally engaged in the sportswear retailing business in the PRC with stores operating in Harbin province in the PRC. Shenge was established in 2007 and is currently held as to 45% by the Company indirectly and as to the remaining 55% by Mr. Ye. Ms. Xing is the spouse of Mr. Ye. To the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, Mr. Ye and Ms. Xing are third parties independent of the Company and its connected persons (as defined in the Listing Rules).

As disclosed in the Prospectus, one of the ways to grow the operations of the Group in an efficient manner is through the establishment of joint ventures such as Shenge so that the Group’s retail network can be expanded into regions in which it has little or no presence. Instead of obtaining the entire interest in such joint ventures, the Company has chosen to, in some cases, form joint ventures with the joint venture partners and at the same time maintaining an option exercisable only at the discretion of the Company to acquire the remaining interest in such joint ventures. This enables the Group to lower its exposure if it were to obtain the entire interest in joint venture at the outset and at the same time, if the Company is satisfied with the operating and financial performance of the relevant joint venture, the Company may increase its stake in such joint venture, by exercising the call option.

In view of changes in sportswear market conditions in the PRC and adjustment of market strategies of the Group, the Group is of the view that it is an opportune time to dispose of the Group's interest in Shenge. In addition to the consideration payable to the Company and the release of its obligations under the guarantee in respect of the bank loan under the Termination Framework Agreement, the Terminations will enable the Company to recoup its initial investment amount and realized a portion of investment gains in Shenge.

For the fiscal year ended 30 September 2008, the unaudited consolidated net profits before and after taxation of Shenge were approximately USD4.5 million (equivalent to approximately HK\$35.1 million) and approximately USD3.1 million (equivalent to approximately HK\$24.2 million) respectively. For the fiscal year ended 30 September 2009, the unaudited consolidated net profits before and after taxation of Shenge were approximately USD8.8 million (equivalent to approximately HK\$68.6 million) and approximately USD6.6 million (equivalent to approximately HK\$51.5 million) respectively. The unaudited consolidated net assets value of Shenge as at 30 September 2009 was approximately USD17.5 million (equivalent to approximately HK\$136.5 million).

As a result of the Terminations, a loss in the amount of approximately USD6.6 million (equivalent to approximately HK\$51.5 million) is expected to be provided for in the consolidated income statements of the Company for the fiscal year ended 30 September 2010, which will be calculated by reference to (a) the difference between the amount of the consideration payable to the Company and the carrying amount of the Company's interest in Shenge as at 30 June 2010; and (b) the difference between the recoverable amount and the fair value of the Call Option as at 31 March 2010. The amount of the actual loss to be recorded by the Company is dependent on the financial performance of Shenge between the period from 1 July 2010 to the date of completion of the disposal of the Company's interest in Shenge and the fair value of the Call Option at the date of Completion. As such loss is non-recurrent or cash loss of the Company, it would not have material adverse effect on the working capital or financial position of the Group.

Taking into account the consideration payable to the Company and the financial position of Shenge, the Directors are of the view that the terms of the Transaction Documents are fair and reasonable and are on normal commercial terms and the transactions contemplated under the Transaction Documents are in the interests of the Company and the Shareholders as a whole.

#### **LISTING RULES IMPLICATION**

As the relevant percentage ratios (as defined in the Listing Rules) in respect of the Terminations are 5% or more but less than 25%, the entering into of the Transaction Documents constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules and is subject to the reporting and announcement requirements under Rule 14.34 of the Listing Rules.

## DEFINITIONS

In this announcement, unless the context otherwise requires, the following expressions have the following meanings:

“Call Option”	the call option granted by Mr. Ye to the Group in respect of 55% equity interest in Shenge held by Mr. Ye
“Call Option Termination Agreement”	a call option termination agreement dated 12 August 2010 entered into between Dragonlight BVI, Dragonlight China, Mr. Ye, Ms. Xing and Shenge pursuant to which the Call Option was terminated
“Company”	Pou Sheng International (Holdings) Limited, a company incorporated in Bermuda with limited liability and whose shares are listed on the Stock Exchange with stock code 3813
“Directors”	the directors of the Company
“Dragonlight BVI”	Dragonlight Group Limited, a company incorporated in the British Virgin Islands with limited liability and whose entire issued share capital is held indirectly by the Company
“Dragonlight China”	龍光(中國)體育用品有限公司 (Dragonlight (China) Sports Goods Company Limited), a company established in the PRC with limited liability and whose entire equity interest is held directly by Dragonlight BVI
“Dragonlight Entities”	Dragonlight BVI and Dragonlight China
“Equity Buyback Agreement”	an equity buyback agreement dated 12 August 2010 entered into between Mr. Ye, Ms. Xing, Dragonlight China and Shenge pursuant to which Mr. Ye and Ms. Xing agreed to return an aggregate of 45% equity interest in Shenge to Dragonlight China in the event that Mr. Ye and Ms. Xing fail to pay to Dragonlight China within the time limit specified in the Termination Framework Agreement and the Equity Transfer Agreement the total consideration of RMB42,809,100

“Equity Pledge Agreement”	an equity pledge agreement dated 12 August 2010 entered into between Mr. Ye, Shenge and Dragonlight China pursuant to which Mr. Ye agreed to pledge his 55% equity interest in Shenge as security for the New Entrusted Loan
“Equity Transfer Agreement”	an equity transfer agreement dated 12 August 2010 entered into between Dragonlight China, Mr. Ye, Ms. Xing and Shenge in respect of the transfer of 30% and 15% equity interest in Shenge by Dragonlight China to Mr. Ye and Ms. Xing respectively
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollar(s), the lawful currency in Hong Kong
“Joint Responsibility Guarantee”	a joint responsibility guarantee agreement dated 12 August 2010 entered into between Mr. Ye, Ms. Xing, Dragonlight China and Shenge pursuant to which Mr. Ye and Ms. Xing irrevocably assume joint responsibility to Dragonlight China for the repayment of the New Entrusted Loan and all reasonable expenses incurred in relation to enforcement of the New Entrusted Loan contracts
“Joint Sales Supplemental Agreement”	a joint sales supplemental agreement dated 12 August 2010 entered into among Shenge and its associated corporations, Dargonlight China and its associated corporations, Mr. Ye and Ms. Xing
“Listing”	the listing of the Shares on the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Maximum Pledge Contract”	a maximum pledge contract dated 12 August 2010 entered into between Mr. Ye, Ms. Xing, Shenge and Dragonlight China pursuant to which Shenge agreed to create a pledge over its assets with a maximum value of RMB80,000,000 as security for (a) the New Entrusted Loan and (b) the obligations of Mr. Ye and Ms. Xing to pay the consideration of RMB42,809,100 to Dragonlight China within three months from the date of completion of registration of the transfer of 45% equity interest in Shenge from Dragonlight China to Mr. Ye and Ms. Xing



“Mr. Ye”	葉蕊茂 (Ye Ruimao)
“Ms. Xing”	邢影 (Xing Ying), the spouse of Mr. Ye
“PRC”	the People’s Republic of China
“Prospectus”	the prospectus issued by the Company dated 26 May 2008 in relation to the global offering of the Shares
“RMB”	Renminbi, the lawful currency of PRC
“Share(s)”	ordinary share(s) of HK\$0.01 each in the issued share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Shenge”	哈爾濱申格體育連鎖有限公司(Harbin Shenge Sports Chain Company Limited), a company established in the PRC with limited liability, the equity interest of which is held as to 45% by Dragonlight China and as to the remaining 55% by Mr. Ye
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Terminations”	terminations by the Company of (i) investment in Shenge under the Termination Framework Agreement; and (ii) the Call Option under the Call Option Termination Agreement
“Termination Framework Agreement”	a framework agreement on termination of cooperation dated 12 August 2010 entered into between Dragonlight BVI, Dragonlight China, Mr. Ye, Ms. Xing and Shenge under which the Dragonlight Entities agreed to terminate their investment in Shenge
“Transaction Documents”	the Termination Framework Agreement, the Equity Transfer Agreement, the Equity Buyback Agreement, the Equity Pledge Agreement, the Maximum Pledge Contract, the Call Option Termination Agreement, the Joint Sales Supplemental Agreement and the Joint Responsibility Guarantee
“USD”	United States dollars, the lawful currency of the United States of America

“Yue Yuen”

Yue Yuen Industrial (Holdings) Limited, a company incorporated in Bermuda with limited liability and whose shares are listed on the Stock Exchange with stock code 551

“%”

per cent.

In this announcement, USD are translated into HK\$ at the rate of USD1 to HK\$7.8.

By Order of the Board of  
**Pou Sheng International (Holdings) Limited**  
**Tsai David, Nai Fung**  
*Chairman*

Hong Kong, 12 August 2010

*As at the date of this announcement, 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.*

*Website: [www.pousheng.com](http://www.pousheng.com)*