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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)

**TERMINATION OF INVESTMENT IN JOINT VENTURE
INVOLVING DISPOSAL OF
50% EQUITY INTEREST IN HUBEI JIEZHIXING CLOTHING AND
ACCESSORIES COMPANY LIMITED
BEING
A DISCLOSEABLE AND CONNECTED TRANSACTION FOR
POU SHENG INTERNATIONAL (HOLDINGS) LIMITED**

**Independent financial adviser to the Independent Board Committee and
the Independent Shareholders**



CIMB Securities (HK) Limited

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DEFINITIONS

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

“Board”	the board of directors of the Company
“Call Option”	the call option granted by Mr. Qiu to the Group in respect of 50% equity interest in Jiezhixing held by Mr. Qiu
“Call Option Termination Agreement”	a termination agreement dated 11 March 2010 entered into between the Dragonlight Entities, Mr. Qiu, Ms. Wang and Jiezhixing under which the Call Option was terminated
“CIMB” or “Independent Financial Adviser”	CIMB Securities (HK) Limited, a corporation licensed to carry out type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO and the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the entering into of the Transaction Documents
“Director(s)”	director(s) 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 Pou Sheng
“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
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollar(s), the lawful currency in Hong Kong
“Hubei Shengdao”	湖北勝道體育用品有限公司(Hubei Shengdao Sports Goods Company Limited), a company established in the PRC with limited liability, the equity interest of which is held as to 60% by Pou Sheng indirectly and as to 40% by Mr. Qiu
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

DEFINITIONS

“Independent Board Committee”	the committee comprising Mr. Chen Huan-Chung, Mr. Hu Sheng-Yih, Mr. Mak Kin Kwong and Mr. Cheng Ming Fun Paul, all being independent non-executive Directors of the Company, formed to advise the Independent Shareholders on the terms of the Transaction Documents and the transaction contemplated thereunder
“Independent Shareholder(s)”	Shareholder(s) who are not involved in or interested in the Transaction Documents and the transactions contemplated thereunder
“Jiezhixing”	湖北杰之行服飾有限公司(Hubei Jiezhixing Clothing and Accessories Company Limited), a company established in the PRC with limited liability, the equity interest of which is held as to 50% by Dragonlight China and as to the remaining 50% by Mr. Qiu
“Listing”	the listing of the Shares on the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Latest Practicable Date”	29 March 2010, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contain herein
“Mr. Qiu”	邱小杰(Qiu Xiaojie), a substantial shareholder and director of Hubei Shengdao and a connected person of Pou Sheng
“Ms. Wang”	汪麗(Wang Lai), the spouse of Mr. Qiu and a director of Jiezhixing
“Pou Sheng” or the “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
“PRC”	the People’s Republic of China
“Prospectus”	the prospectus issued by Pou Sheng dated 26 May 2008 in relation to the global offering of the Shares
“RMB”	Renminbi, the lawful currency of PRC

DEFINITIONS

“Share Buyback Agreement”	the share buyback agreement dated 11 March 2010 between Dragonlight China and Mr. Qiu under which Mr. Qiu agreed to return to Dragonlight China 50% equity interest in Jiezhixing under certain conditions
“Share Transfer Agreement”	the share transfer agreement dated 11 March 2010 entered into between Dragonlight China and Mr. Qiu in respect of the transfer of 50% of equity interest in Jiezhixing by Dragonlight China to Mr. Qiu
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) of HK\$0.01 each in the issued share capital of the Company
“Shareholder(s)”	holder(s) of the shares of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Terminations”	terminations by Pou Sheng of (i) investment in Jiezhixing under the Termination Framework Agreement; and (ii) the Call Option under the Call Option Termination Agreement
“Termination Framework Agreement”	a termination joint venture framework agreement dated 11 March 2010 entered into between Dragonlight BVI, Dragonlight China, Mr. Qiu and Ms. Wang and Jiezhixing under which the Dragonlight Entities agreed to terminate its investment in Jiezhixing
“Transaction Documents”	the Termination Framework Agreement, the Call Option Termination Agreement, the Share Transfer Agreement and the Share Buyback Agreement
“US\$”	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.

For the purpose of illustration in this circular only, sums in US\$ were translated into HK\$ at a rate of US\$1 to HK\$7.8.

LETTER FROM THE BOARD



POU SHENG INTERNATIONAL (HOLDINGS) LIMITED

寶勝國際（控股）有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 3813)

Board of Directors:

Chairman and Non-Executive Director:

Tsai David, Nai Fung

Executive Director:

Chang Karen Yi-Fen (*Chief Executive Officer*)

Non-executive Directors:

Tsai Patty, Pei Chun

Kuo, Li-Lien

Independent Non-executive Directors:

Chen Huan-Chung

Hu Sheng-Yih

Mak Kin Kwong

Cheng Ming Fun Paul

Registered Office:

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

**Head Office and Principal Place
of Business in Hong Kong:**

Suites 3108-11, 31/F.

Tower 6, The Gateway

9 Canton Road

Tsimshatsui, Kowloon

Hong Kong

31 March 2010

To the Shareholders

Dear Sir or Madam,

**TERMINATION OF INVESTMENT IN JOINT VENTURE
INVOLVING DISPOSAL OF
50% EQUITY INTEREST IN HUBEI JIEZHIXING CLOTHING AND
ACCESSORIES COMPANY LIMITED
BEING
A DISCLOSEABLE AND CONNECTED TRANSACTION FOR
POU SHENG INTERNATIONAL (HOLDINGS) LIMITED**

INTRODUCTION

The Company announced on 11 March 2010 in respect of the entering into of the Transaction Documents, details of which are set out below in this circular.

LETTER FROM THE BOARD

The purpose of this circular is to provide you with, among other things, further information on the Transaction Documents and the advice of the independent financial adviser and the Independent Board Committee.

TERMINATION FRAMEWORK AGREEMENT

Date

11 March 2010

Parties

- (1) Dragonlight BVI
- (2) Dragonlight China
- (3) Mr. Qiu
- (4) Ms. Wang
- (5) Jiezhixing

Summary of the principal terms of the Termination Framework Agreement

The equity interest of Jiezhixing is currently held as to 50% by Dragonlight China and as to the remaining 50% by Mr. Qiu. Under the Termination Framework Agreement, the parties thereto agreed to terminate their cooperation regarding Jiezhixing 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 50% equity interest in Jiezhixing held by it to Mr. Qiu under the Share Transfer Agreement dated 11 March 2010 entered into between Dragonlight China and Mr. Qiu. On the same date, pursuant to the Termination Framework Agreement, Dragonlight China also entered into the Share Buyback Agreement with Mr. Qiu under which Mr. Qiu agreed to return to Dragonlight China 50% equity interest in Jiezhixing if (i) Mr. Qiu fails to comply with its relevant obligations under the Termination Framework Agreement within 10 days which is to pay to Dragonlight China the transfer consideration of RMB32,140,000, being 50% of the amount of the registered capital of Jiezhixing within 10 days of completion of registration of the share transfer with the State Administration for Industry and Commerce of the PRC; or (ii) Mr. Qiu and his related parties fail to comply with the relevant obligations under the Termination Framework Agreement within 5 days which is to enter into agreements before or at the same time as registration of the share transfer with the State Administration for Industry and Commerce of the PRC for entrusted loans in the aggregate principal amount of RMB92,860,000 (as explained below under “Consideration and payment terms”) to be extended to Jiezhixing pursuant to the Termination Framework Agreement and to enter into related security documents; or (iii) Jiezhixing fails to comply with its relevant obligations under the Termination Framework Agreement within 10 days which is to repay the outstanding Existing Guaranteed Bank Loans (as defined below) within 30 days of completion of registration of the share transfer with the State Administration for Industry and Commerce of the PRC. Pou Sheng is not required to pay any consideration for the share buyback.

LETTER FROM THE BOARD

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 Jiezhixing.

As disclosed in the Prospectus, under the price adjustment mechanism, if certain pre-agreed operating results of Jiezhixing exceed their specified benchmarks, the Group will be required to make additional capital contributions to Jiezhixing. On the other hand, if such benchmarks are not met, Mr. Qiu will be required to compensate the Group either by cash or by transferring a portion of his equity interest in Jiezhixing to the Group. Based on the unaudited consolidated financial statements of Jiezhixing for the two profit evaluation years ended 31 March 2008 and 2009, it is estimated that the Group would have been required to make additional capital contributions to Jiezhixing in the amount of approximately RMB122,000,000 under such price adjustment mechanism if there were no Terminations.

Consideration and payment terms

The consideration which is payable to Dragonlight China in respect of the disposal of 50% equity interest in Jiezhixing is RMB32,140,000 which represents 50% of the total registered capital of Jiezhixing.

In addition, Dragonlight China will be paid RMB35,000,000 by way of dividend by Jiezhixing (“Dividend Payment”). The parties to the Termination Framework Agreement have agreed that Dragonlight China will apply such funds to arrange for entrusted loans to be extended to Jiezhixing which shall repay such loans over a period of three years, in the proportion of 20% in the first year, 30% in the second year and the remaining 50% in the third year. Such entrusted loan arrangements involve the Dragonlight China depositing the Dividend Payment with a commercial bank which will then lend, for a fee (which is payable by Jiezhixing), the same amount of money to Jiezhixing. Such entrusted loans will bear interest (which is payable by Jiezhixing to the relevant bank which will then pay such interest to Dragonlight China) at the basic lending rate issued by the People’s Bank of China for one-year, two-year and three-year term loans respectively and may be early repaid at the discretion of Jiezhixing. The registered capital amount of Jiezhixing of RMB32,140,000 payable to Dragonlight China will not be applied for arranging the above entrusted loans.

During the term of the cooperation, Dragonlight China has arranged for entrusted loans extended to Jiezhixing with an outstanding principal amount of RMB57,860,000. Under the Termination Framework Agreement, such existing entrusted loan will be repaid by Jiezhixing over a period of three years in the proportion of 20% in the first year, 30% in the second year and the remaining 50% in the third year, bearing interest (which is payable by Jiezhixing to the relevant bank which will then pay such interest to Dragonlight China) at the basic lending rate issued by the People’s Bank of China for one-year, two-year and three-year term loans respectively, and may be repaid earlier by Jiezhixing at its discretion. Jiezhixing also has existing outstanding bank borrowings with a commercial bank in the principal amount of RMB130,000,000 in respect of which Dragonlight China has provided guarantee (“Existing Guaranteed Bank Loans”). Such bank borrowings will be repaid and the relevant guarantee will be released upon disposal of the 50% equity interest in Jiezhixing held by Dragonlight China.

LETTER FROM THE BOARD

In respect of the above entrusted loan arrangements to Jiezhixing, the following securities will be granted by Mr. Qiu, Ms. Wang and Jiezhixing in favour of the Dragonlight Entities:

- (a) secured guarantee by Mr. Qiu and Ms. Wang over 10% equity interest in Jiezhixing held by them;
- (b) secured guarantee by Mr. Qiu and Ms. Wang over certain private properties in the PRC held by them, some of which may involve depositing with the Dragonlight Entities the original building ownership certificates; and
- (c) secured guarantee by Jiezhixing over the maximum amount of RMB100,000,000 of its assets.

During the negotiation in relation to the Terminations, the parties discussed the possibility of ending their cooperation without causing undesirable negative effect on the operations and cashflow of Jiezhixing having regard to the financial position of Jiezhixing and Mr. Qiu and the credit and financial facilities available to Jiezhixing and agreed that payments will be made in respect of the registered capital amount of RMB32,140,000 payable to Dragonlight China and the Existing Guaranteed Bank Loans while the Dividend Payment and the existing entrusted loans in the amount of RMB57,860,000 will be repaid over a period of 3 years. These terms are negotiated as one package to the Terminations. Given that the above entrusted loans are to be secured by the security as described above and Dragonlight China will receive interest at the basic lending rate (which by ration is higher than the deposit rate most of the time) issued by the People's Bank of China, the Company considers that its position is protected and the entrusted loan arrangements and interest rate are fair and reasonable and in the interest of the Company and its Shareholders as a whole.

The consideration under the Terminations was arrived at after arm's length negotiations between the Group and Mr. Qiu with reference to the amount of the registered capital of Jiezhixing. After the Terminations, the Group will cease to hold any interest in Jiezhixing. Pou Sheng intends to apply the proceeds from the Terminations for general working capital purpose.

Condition precedent

The Termination Framework Agreement is conditional upon the Transaction Documents having been approved by the Shareholders (who are entitled to vote under the Listing Rules) in its general meeting or if acceptable to the Stock Exchange, the receipt of a written shareholders' approval of the Shareholder holding more than 50% of the issued share capital of the Company.

TERMINATION OF CALL OPTION

As disclosed in the Prospectus, the Group entered into call option arrangement with Mr. Qiu under which the Group was granted a call option to acquire from Mr. Qiu his 50% equity interest in Jiezhixing. 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. Qiu in respect of him granting such Call Option involved cash and new Shares issued based on the initial public offering price of the Shares at Listing. Mr. Qiu has agreed, under the Call Option Termination Agreement, to return to Pou Sheng a portion of such Call Option premium in cash within 15 days after receipt by Dragonlight China of the full amount of the registered capital of RMB32,140,000. Such cash amount is expected to be calculated by multiplying

LETTER FROM THE BOARD

the total number of Shares issued by the then prevailing Share price, subject to a maximum amount of HK\$17,037,300. The carrying amount of the Call Option as at 30 September 2009 was US\$3.4 million. The Call Option was initially granted by Mr. Qiu for the benefit of Pou Sheng so that Pou Sheng may (but is not obliged to) acquire from Mr. Qiu at any time during the exercise period the remaining 50% interest in Jiezhixing. After arm's length negotiations between the Group and Mr. Qiu, both parties have agreed that as part and parcel of the Terminations, a portion of the premium will be returned. In light of this and that the Company has no intention to exercise the Call Option after the Terminations, the Directors consider that the amount of premium to be returned is fair and reasonable for Pou Sheng and is in the interest of Pou Sheng and its Shareholders as a whole.

INFORMATION ON POU SHENG AND THE DRAGONLIGHT ENTITIES

Pou Sheng is an investment holding company and is a subsidiary of Yue Yuen. Pou Sheng 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 Pou Sheng. Pou Sheng holds the 50% equity interest in Jiezhixing through its holding in the Dragonlight Entities.

INFORMATION ON JIEZHIXING, MR. QIU AND MS. WANG AND REASONS FOR AND BENEFITS OF THE TERMINATIONS

Jiezhixing is principally engaged in the sportswear retailing business in the PRC with stores operating in Hubei province in the PRC. Jiezhixing was established in 2007 and is currently held as to 50% by Pou Sheng indirectly and as to the remaining 50% by Mr. Qiu. Mr. Qiu operates his sportswear retailing business in the PRC through his interest in Jiezhixing. Ms. Wang is the spouse of Mr. Qiu and is a director of Jiezhixing. 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 Jiezhixing 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, Pou Sheng 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 Pou Sheng 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 Pou Sheng is satisfied with the operating and financial performance of the relevant joint venture, Pou Sheng may increase its stake in such joint venture, by exercising the call option.

In addition to the consideration payable to Pou Sheng and the repayment of the entrusted loans by Jiezhixing under the Termination Framework Agreement, Pou Sheng will also be released from its obligations to make additional capital contributions to Jiezhixing under the price adjustment mechanism in the original joint venture agreements. Since its investment in Jiezhixing, Pou Sheng has contributed a total of RMB32,140,000 in the registered capital of Jiezhixing. The Terminations will therefore not only enable Pou Sheng to recoup its initial investment amount and will also relieve Pou Sheng from further funding obligations under the price adjustment mechanism.

LETTER FROM THE BOARD

For the fiscal year ended 30 September 2008, the unaudited consolidated net profits before and after taxation of Jiezhixing were approximately US\$9.6 million (equivalent to approximately HK\$74,880,000) and approximately US\$6.6 million (equivalent to approximately HK\$51,480,000) respectively. For the fiscal year ended 30 September 2009, the unaudited consolidated net profits before and after taxation of Jiezhixing were approximately US\$9.3 million (equivalent to approximately HK\$72,540,000) and approximately US\$6.2 million (equivalent to approximately HK\$48,360,000) respectively. The unaudited consolidated net assets value of Jiezhixing as at 30 September 2009 was approximately US\$12.2 million (equivalent to approximately HK\$95,160,000).

As a result of the Terminations, a loss in the amount of approximately US\$3.2 million (equivalent to approximately HK\$24,960,000) has been provided for in the consolidated income statements of Pou Sheng for the fiscal year ended 30 September 2009, which was calculated by reference to (a) the difference between the amount of the consideration payable to Pou Sheng and the carrying amount of Pou Sheng's interest in Jiezhixing as at 30 September 2009; and (b) the difference between the recoverable amount and the fair value of the Call Option as at 30 September 2009. In accordance with the applicable Hong Kong Accounting Standards, such loss was provided for in its financial statements for the fiscal year ended 30 September 2009 as a result of the anticipated disposal of 50% equity interest in Jiezhixing. The amount of the actual loss to be recorded by Pou Sheng is dependent on the performance of Jiezhixing between the period from 1 October 2009 to the date of completion of the disposal of Pou Sheng's interest in Jiezhixing.

During the course of the co-operation, it was found that the parties to the cooperation hold different opinions in the management, development and operation of the business of Jiezhixing. Although the Company will recognise a loss in its financial statements as a result of the Terminations and that Jiezhixing made profit in the year ended 30 September 2009, the termination of the cooperation will enable the Company to focus its resources on areas where it considers have potential to contribute to the growth of the Group. The Terminations will also relieve the Company's obligation under the price adjustment mechanism and its guarantee obligation under the Existing Guaranteed Bank Loans. As a result of the termination of the cooperation, the Company may lose its market share in the Hubei Province in the short term. The Company may evaluate the situation and may reposition itself in order to build up its presence in the area in the future.

Taking into account the consideration payable to Pou Sheng (being Pou Sheng's initial contribution amount into the registered capital of Jiezhixing), the financial position of Jiezhixing, the relief of Pou Sheng's capital contribution obligation under the price adjustment mechanism, the Board (including its independent non-executive directors who have expressed their views in the letter from the Independent Board Committee set out on page 11 of this circular) are of the view that the terms of the Transaction Documents as a whole are fair and reasonable and are on normal commercial terms and the transactions contemplated under the Transaction Documents are in the interests of Pou Sheng and the Shareholders as a whole.

LETTER FROM THE BOARD

LISTING RULES IMPLICATIONS

Discloseable and connected transaction for Pou Sheng

As Mr. Qiu is a substantial shareholder of a subsidiary of Pou Sheng, Hubei Shengdao, Mr. Qiu is a connected person of Pou Sheng under the Listing Rules. As Jiezhixing is an associate of Mr. Qiu by virtue of Mr. Qiu's interest in 50% of its equity interest, Jiezhixing is also a connected person of Pou Sheng under the Listing Rules. The entering into of the Transaction Documents and each of the transactions contemplated thereunder therefore constitutes a connected transaction for Pou Sheng under Chapter 14A of the Listing Rules which are subject to announcement, reporting and independent shareholders' approval requirements. As the results of the size tests exceed 5%, the entering into of the Transaction Documents also constitutes a discloseable transaction for Pou Sheng under Chapter 14 of the Listing Rules.

Since (i) Yue Yuen is a controlling shareholder of Pou Sheng holding 2,408,344,622 Pou Sheng Shares (being approximately 56.13% of the issued shares in Pou Sheng) as at the Latest Practicable Date, and (ii) no Shareholder is required to abstain from voting at the general meeting of Pou Sheng for the approval of the Transaction Documents, a written shareholders' approval of Yue Yuen may be accepted in lieu of holding a general meeting for Pou Sheng under Rule 14A.43 of the Listing Rules. Yue Yuen's written approval of the Transaction Documents has been obtained for that purpose.

ADDITIONAL INFORMATION

Your attention is also drawn to the letter from the Independent Board Committee and the letter of advice from CIMB to the Independent Board Committee and the Independent Shareholders included in this circular.

Yours faithfully,
For and on behalf of
Pou Sheng International (Holdings) Limited
Tsai David, Nai Fung
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The following is the text of a letter from the Independent Board Committee, which has been prepared for the purpose of incorporation into this circular, setting out its recommendation to the Independent Shareholders in relation to the entering into of the Transaction Documents.



POU SHENG INTERNATIONAL (HOLDINGS) LIMITED

寶勝國際（控股）有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 3813)

31 March 2010

To the Independent Shareholders

Dear Sir or Madam,

We refer to the circular issued by the Company to the Shareholders dated 31 March 2010 (the “Circular”) of which this letter forms part. Terms defined in this Circular shall have the same meanings in this letter unless the context otherwise requires.

Under the Listing Rules, the entering into of the Transaction Documents between Yue Yuen and the Company constitutes a connected transaction for the Company and is thus subject to the approval of the Independent Shareholders.

We have been appointed to advise you on the terms of the Transaction Documents. CIMB has been appointed as the independent financial adviser to advise you and us in this regard. Details of the independent advice of CIMB, together with the principal factors and reasons CIMB has taken into consideration, are set out on pages 12 to 23 of this Circular.

Having considered the terms of the Transaction Documents and the advice of CIMB in relation thereto, we are of the opinion that the terms of the Transaction Documents are fair and reasonable in so far as the Company and the Independent Shareholders are concerned, and the transactions contemplated under the Transaction Documents are in the interest of the Company and the Shareholders as a whole.

Yours faithfully,

For and on behalf of

Independent Board Committee

Chen Huan-Chung, Hu Sheng-Yih, Mak Kin Kwong, Cheng Ming Fun Paul

Independent non-executive Directors

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the full text of the letter of advice to the Independent Board Committee and the Independent Shareholders from CIMB in respect of the entering into of the Transaction Documents, prepared for the purpose of inclusion in this circular.



25th Floor, Central Tower
28 Queen's Road Central
Hong Kong

31 March 2010

*To the Independent Board Committee and
the Independent Shareholders*

Dear Sirs,

DISCLOSEABLE AND CONNECTED TRANSACTION – TERMINATION OF INVESTMENT IN JOINT VENTURE INVOLVING DISPOSAL OF 50% EQUITY INTEREST IN HUBEI JIEZHIXING CLOTHING AND ACCESSORIES COMPANY LIMITED

INTRODUCTION

We refer to our engagement as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the entering into of the Transaction Documents, details of which are contained in the circular of the Company (the “**Circular**”) to the Shareholders dated 31 March 2010, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

On 11 March 2010, the Company’s subsidiaries, the Dragonlight Entities, entered into the Termination Framework Agreement with Mr. Qiu, Ms. Wang and Jiezhixing under which the Dragonlight Entities agreed to terminate its investment in 50% equity interest in Jiezhixing. On the same date, the Dragonlight Entities, the Company, Mr. Qiu, Ms. Wang and Jiezhixing entered into the Call Option Termination Agreement under which the Call Option was terminated.

As Mr. Qiu is a substantial shareholder of a subsidiary of the Company, Hubei Shengdao, Mr. Qiu is a connected person of the Company under the Listing Rules. As Jiezhixing is an associate of Mr. Qiu by virtue of Mr. Qiu’s interest in 50% of its equity interest, Jiezhixing is also a connected person of the Company under the Listing Rules. The entering into of the Transaction Documents therefore constitute connected transactions for the Company under Chapter 14A of the Listing Rules which are subject to announcement, reporting and independent shareholders’ approval requirements.

As noted in the letter from the Board of this Circular (the “**Letter from the Board**”), the Company has obtained a written approval dated 11 March 2010 from Yue Yuen in relation to the approval of the Transaction Documents. Yue Yuen is a controlling shareholder of the Company holding approximately 56.13% of the issued shares in the Company as at the Latest Practicable Date. The Stock Exchange has granted a waiver from strict compliance of the requirement for holding a general meeting to seek

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

independent shareholders' approval in respect of the Transaction Documents pursuant to Rule 14A.43 of the Listing Rules on the basis that no shareholder of the Company would be required to abstain from voting if the Company was to convene a general meeting for the approval of the Transaction Documents and the Company has obtained the written shareholders' approval from Yue Yuen in respect of the Transaction Documents. Accordingly, no shareholders' meeting will be convened and held by the Company in connection with the Transaction Documents.

An independent board committee comprising Mr. Chen Huan-Chung, Mr. Hu Sheng-Yih, Mr. Mak Kin Kwong and Mr. Cheng Ming Fun Paul, being the independent non-executive Directors, has been formed to advise the Independent Shareholders in relation to the Transaction Documents.

BASIS OF OUR OPINION

In formulating our recommendation, we consider that we have reviewed sufficient and relevant information and documents and have taken reasonable steps as required under Rule 13.80 of the Listing Rules including the notes thereto to reach an informed view and to provide a reasonable basis for our recommendation. We have relied on the information and facts contained or referred to in the Circular, the information provided by the Company and our review of the relevant public information. We have also assumed that the information, facts and representations contained or referred to in the Circular were true and accurate at the time when they were made and will remain true and accurate up to the Latest Practicable Date. We have not, however, conducted an independent verification of the information nor have we conducted any form of in-depth investigation into the businesses and affairs or the prospects of the Company, Yue Yuen, or any of their respective subsidiaries or associates (as defined in the Listing Rules). We have no reason to doubt the truth, accuracy and completeness of the information, facts and representations provided and represented to us by the Company. We have also been advised by the Company and believe that no material facts have been omitted from the Circular.

PRINCIPAL FACTORS CONSIDERED

In arriving at our opinion, we have considered the following principal factors and reasons:

(I) Background

(1) The Company

The Company is an investment holding company and is a subsidiary of Yue Yuen. The Group is 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 50% equity interest in Jiezhixing through its holding in the Dragonlight Entities.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is a summary of the audited consolidated financial information of the Group for the two years ended 30 September 2009 extracted from of the annual report of the Company for the year ended 30 September 2009 (the “**2009 Annual Report**”) in relation to the results of the Company for the year ended 30 September 2009.

Consolidated financial results

	For the year ended 30 September	
	2008	2009
	US\$'000	US\$'000
Revenue	959,548	1,142,293
Gross profit	344,364	353,533
Profit before taxation	100,464	(901)
Profit attributable to equity holders of the Company	70,024	(3,696)
Basic earnings per share (<i>US cents</i>)	2.9	(0.1)

As noted in the 2009 Annual Report, the net asset value of the Group as at 30 September 2009 was approximately US\$770.6 million.

(2) Jiezhixing

As noted in the Letter from the Board, Jiezhixing is principally engaged in the sportswear retailing business in the PRC with stores operating in Hubei province in the PRC. Jiezhixing was established in 2007 and is currently held as to 50% by the Group and as to the remaining 50% by Mr. Qiu. Mr. Qiu operates his sportswear retailing business in the PRC through his interest in Jiezhixing. Ms. Wang is the spouse of Mr. Qiu and is a director of Jiezhixing.

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 Jiezhixing 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 Group 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 Group 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, (i) if the Group is satisfied with the operating and financial performance of the relevant joint venture, the Group may increase its stake in such joint venture, by exercising the call option; and (ii) as disclosed in the joint venture agreement, if the Group is not satisfied with the operating and financial performance of the relevant joint venture, the Group may terminate such joint venture arrangements.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We note from the Letter from the Board that for the year ended 30 September 2008, the unaudited consolidated net profits before and after taxation of Jiezhixing were approximately USD9.6 million and approximately USD6.6 million, respectively. For the year ended 30 September 2009, the unaudited consolidated net profits before and after taxation of Jiezhixing were approximately USD9.3 million and approximately USD6.2 million, respectively. The unaudited consolidated net assets value of Jiezhixing as at 30 September 2009 was approximately USD12.2 million.

(3) Reasons for and benefits of entering into of the Transaction Documents

We have discussed with the management of the Company and understand that while Jiezhixing has been profitable for the past few years, during the course of the co-operation, it was found that the parties to the cooperation hold different opinions in the management, development and operation of the business of Jiezhixing. Accordingly, despite the Company may lose its market share in Hubei Province in the short term, the Company entered into of the Transaction Documents to terminate from the Jiezhixing joint venture. The Company may evaluate the situation and may reposition itself in order to build up its presence in the area in the future.

As noted from the Letter from the Board, since its investment in Jiezhixing, the Group has contributed a total of RMB32,140,000 in the registered capital of Jiezhixing. Accordingly, despite the loss to be recognized in its financial statements as a result of the Terminations, the Board considers that the Terminations will not only enable the Group to recoup its initial investment amount but also relieve the Group from (i) its obligations to make additional capital contributions of approximately RMB122,000,000 to Jiezhixing under the price adjustment mechanism in the original joint venture agreements (the “**Price Adjustment Obligation**”) and (ii) its guarantee obligation under the Existing Guaranteed Bank Loans (as defined below). In addition, the Terminations will also allow the Company to focus its resources on areas where it considers have potential to contribute to the growth of the Group.

Our view

Having considered that (i) it is part of the Group’s business model to establish joint ventures and it is in the ordinary and usual course of business of the Group to terminate these joint venture arrangements for commercial reasons; (ii) the Group currently has a number of other joint ventures of similar nature; (iii) the parties to the cooperation hold different opinions in the management, development and operation of the business of Jiezhixing; (iv) the merits of the Terminations to the Group as set out in the sub-section headed “Reasons for and benefits of entering into of the Transaction Documents” above, we consider that the entering into of the Transaction Documents is in the ordinary and usual course of business of the Group, and the reasons for the entering into of the Transaction Documents are justifiable.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(II) The Transaction Documents

(1) The Termination Framework Agreement

Under the Termination Framework Agreement, the parties thereto agreed to terminate their cooperation regarding Jiezhixing 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 50% equity interest in Jiezhixing held by it to Mr. Qiu under the Share Transfer Agreement dated 11 March 2010 entered into between Dragonlight China and Mr. Qiu.

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 Jiezhixing.

As disclosed in the Prospectus, under the price adjustment mechanism, if certain pre-agreed operating results of Jiezhixing exceed their specified benchmarks, the Group will be required to make additional capital contributions to Jiezhixing but the Group's equity interest in Jiezhixing will remain the same after such capital contributions. On the other hand, if such benchmarks are not met, Mr. Qiu will be required to compensate the Group either by cash or by transferring a portion of his equity interest in Jiezhixing to the Group. Based on the unaudited consolidated financial statements of Jiezhixing for the two profit evaluation years ended 31 March 2008 and 2009, it is estimated that the Group would have been required to make additional capital contributions to Jiezhixing in the amount of approximately RMB122,000,000 under the Price Adjustment Obligation if there were no Terminations.

Details of the Termination Framework Agreement are set out in the Letter from the Board.

(2) The Call Option Termination Agreement

As disclosed in the Prospectus, the Group entered into call option arrangement with Mr. Qiu under which the Group was granted a call option to acquire from Mr. Qiu his 50% equity interest in Jiezhixing. 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. Qiu in respect of him granting such Call Option involved cash and new Shares. As stated in the Letter from the Board, under the Call Option Termination Agreement, Mr. Qiu has agreed to return to the Company a portion of such Call Option premium in cash, which is calculated based on 5,586,000 Shares (being the original share portion of call option premium) times a price to be determined with reference to the then market price of the Shares before completion of the Terminations, upon the Group's cancellation of the Call Option.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(3) The Share Buyback Agreement

On the same date, pursuant to the Termination Framework Agreement, Dragonlight China also entered into the Share Buyback Agreement with Mr. Qiu under which Mr. Qiu agreed to return to Dragonlight China 50% equity interest in Jiezhixing if (i) Mr. Qiu fails to comply with its relevant obligations under the Termination Framework Agreement to pay to Dragonlight China the transfer consideration of RMB32,140,000, being 50% of the amount of the registered capital of Jiezhixing, within 10 days of completion of registration of the share transfer with the State Administration for Industry and Commerce of the PRC; or (ii) Mr. Qiu and his related parties fail to comply with the relevant obligations under the Termination Framework Agreement within 5 days which is to enter into agreements in accordance with the Termination Framework Agreement for entrusted loans in the aggregate principal amount of RMB92,860,000 (as explained under section headed “Consideration and payment terms” of the Letter from the Board) to be extended to Jiezhixing pursuant to the Termination Framework Agreement and to enter into related security documents; or (iii) Jiezhixing fails to comply with its relevant obligations under the Termination Framework Agreement within 10 days which is to repay the outstanding Existing Guaranteed Bank Loans (as defined below) within 30 days of completion of registration of the share transfer with the State Administration for Industry and Commerce of the PRC (together, the “**Payment Obligations**”). The Group is not required to pay any consideration for the share buyback.

Taking into consideration that the purpose of the Share Buyback Agreement is to protect the Group’s interest should Mr. Qiu failed to pay the liabilities under the Payment Obligations, the entering into of the Share Buyback Agreement is part and parcel of the Terminations, and the Group is not required to pay any consideration for the share buyback, we are of the view that the Share Buyback Agreement is on normal commercial terms, fair and reasonable and is in the interests of the Company and the Shareholders as a whole.

(III) Consideration and payment terms

(1) Consideration of the Termination Framework Agreement

The consideration under the Termination Framework Agreement comprises:

- (a) RMB32,140,000, which represents 50% of the total registered capital of Jiezhixing, payable to Dragonlight China within 10 days from the completion of relevant registration procedures in respect of the disposal of 50% equity interest in Jiezhixing (“**Registered Capital Consideration**”); and
- (b) RMB35,000,000 payable to Dragonlight China by way of dividend by Jiezhixing (“**Dividend Payment**”).

As stated in the Letter from the Board, the consideration of the Terminations was arrived at after arm’s length negotiations between the Group and Mr. Qiu with reference to the amount of the registered capital of Jiezhixing.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Our Analysis

Taking into account that 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 the Price Adjustment Obligation of approximately RMB122 million, and the fact that assuming there were no Terminations, the payment under the Price Adjustment Obligation by the Group would not increase the Group's equity interest in Jiezhixing, in our analysis, we have also taken into account the Price Adjustment Obligation as part of the consideration of the Terminations. Accordingly, the aggregate consideration of the Terminations shall be approximately RMB189.1 million (the "**Total Consideration**"), being the sum of the Registered Capital Consideration, Dividend Payment, and Price Adjustment Obligation.

Comparable Companies Analysis

To assess the fairness of the Total Consideration, we have, on a best effort basis, conducted a search on the Stock Exchange's website to select companies (the "**Comparable Companies**") listed on the main board of the Stock Exchange, whose business activities are, in our view, broadly comparable or similar to the core business activities of Jiezhixing, being retail of non-self-owned branded sportswear, fashion, shoes and apparels, and compare the price earning ratio ("**PER**") and price to book ratio ("**PB**") of the Comparable Companies with that of the terms of the Terminations as implied by the Total Consideration.

Under the above selection criteria, we have identified two Comparable Companies, namely the Company and Walker Group Holdings Limited (Stock Code: 1386). Set out below are details of the Comparable Companies:

Company name (stock code)	Transaction nature	PER (times)	PB (times)
The Company (3813)	A leading sportswear retailer in the PRC and are engaged in retail business, brand licensee business, manufacturing business, and property leasing and management business	N/A	0.59
Walker Group Holdings Limited (1386)	Design and sales of a diversified range of footwear products, mainly including casual, smart casual and sports casual footwear products	N/A	0.75
		Average:	N/A
Terminations		8.9 ^(Note)	4.55 ^(Note)

Source: Bloomberg

Note: Being the PER and PB as implied by the Total Consideration.

As both Comparable Companies had been loss making for the most recent financial year, no PER analysis can be performed. As noted from the table above, we note that the PB as implied by the Total Consideration is higher than PB of the Comparable Companies.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Comparable Transaction Analysis

As additional reference, we have also, on a best effort basis, conducted a search on the Stock Exchange's website of the transactions in relation to acquisition/disposal of the controlling interest of retail businesses in relation to non-self-owned branded sportswear, fashion, shoes and apparels during the 12-month period from the date of Termination Framework Agreement, and identified the following transaction (the "**Comparable Transaction**") the nature of which we consider to be similar to that of the Terminations. Set out below are details of the Comparable Transaction:

Company name (stock code)	Date of announcement	Transaction nature	Consideration (million)	Transaction PER (times)
Li & Fung Limited (494)	19 October 2009	Acquisition of the entire interest in a company engaged in the business of design, sourcing, licensing, marketing and selling of children's apparel and young men's/men's apparel	US\$101.8	8.6 ^(Note 1)
Terminations		Disposal of 50% of Jiezhixing	RMB189.1	8.9 ^(Note 2)

Source: Stock Exchange's website

Notes:

1. Based on the initial consideration of US\$101.8 million.
2. Being the PER as implied by the Total Consideration.

We note from the above table, PER of the Comparable Transaction was 8.6 times. The PER as implied by the Total Consideration is approximately 8.9 times.

Having considered that,

- (i) under the terms of the Termination Framework Agreement, Mr. Qiu has waived Dragonlight China's obligation to pay the Price Adjustment Obligation of RMB122 million;
- (ii) the sum of Registered Capital Consideration and Dividend Payment exceeds the Group's total contribution to the registered capital of Jiezhixing;
- (iii) the PB as implied by the Total Consideration is higher than the PB of the Comparable Companies; and
- (iv) the PER as implied by the Total Consideration is in line with the PER of the Comparable Transaction,

we are of the view that the Total Consideration is fair and reasonable.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(2) Payment Terms of the Termination Framework Agreement

Pursuant to the Termination Framework Agreement, the Registered Capital Consideration is payable to Dragonlight China within 10 days from the completion of relevant registration procedures in respect of the disposal of 50% equity interest in Jiezhixing. In respect of the Dividend Payment, Dragonlight China will apply the funds to arrange for entrusted loans to be extended to Jiezhixing which shall repay such loans over a period of three years, in the proportion of 20% in the first year, 30% in the second year and the remaining 50% in the third year. Such entrusted loan arrangements involve the Dragonlight China depositing the Dividend Payment with a commercial bank which will then lend, for a fee (which is payable by Jiezhixing), the same amount of money to Jiezhixing. Such entrusted loans will bear interest and will be payable to Dragonlight China at the basic lending rate issued by the People's Bank of China for one-year, two-year and three-year term loans respectively and may be early repaid at the discretion of Jiezhixing.

In addition, during the term of the cooperation, Dragonlight China has arranged for entrusted loans to be extended to Jiezhixing with an outstanding principal amount of RMB57,860,000. Under the Termination Framework Agreement, such existing entrusted loan will be repaid by Jiezhixing over a period of three years in the proportion of 20% in the first year, 30% in the second year and the remaining 50% in the third year, bearing interest, which will be payable to Dragonlight China at the basic lending rate issued by the People's Bank of China for one-year, two-year and three-year term loans respectively, and may be repaid earlier by Jiezhixing at its discretion. Jiezhixing also has existing outstanding bank borrowings with a commercial bank in the principal amount of RMB130,000,000 in respect of which Dragonlight China has provided guarantee ("**Existing Guaranteed Bank Loans**"). The Existing Guaranteed Bank Loans will be repaid and the relevant guarantee will be released upon disposal of the 50% equity interest in Jiezhixing held by Dragonlight China.

In respect of the above loan arrangements, the following securities will be granted by Mr. Qiu, Ms. Wang and Jiezhixing in favour of the Dragonlight Entities:

- (a) secured guarantee by Mr. Qiu and Ms. Wang over 10% equity interest in Jiezhixing held by them;
- (b) secured guarantee by Mr. Qiu and Ms. Wang over certain private properties in the PRC held by them, some of which may involve depositing with the Dragonlight Entities the original building ownership certificates; and
- (c) secured guarantee by Jiezhixing over the maximum amount of RMB100,000,000 of its assets.

Pursuant to the Termination Framework Agreement, the above secured guarantee agreements in favour of the Dragonlight Entities will be registered with the relevant governmental bodies.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Taking into account the fact that,

- (i) the payment structure, including the entrusted loan arrangement, is part and parcel of the Terminations;
- (ii) Dragonlight China also entered into the Share Buyback Agreement with Mr. Qiu under which Mr. Qiu agreed to return to Dragonlight China 50% equity interest in Jiezhixing if Mr. Qiu and/or Jiezhixing fails to pay its liabilities under the Payment Obligations;
- (iii) as at 30 September 2009, the Group had an aggregate bank balances and cash of approximately US\$179.8 million of which the bank deposits carried interest rates ranging from 0.01% to 4.42% for the year ended 30 September 2009, which is lower than the interest of the entrusted loan arrangement which, based on the current basic lending rate issued by the People's Bank of China, carried interest ranging from 5.31% to 5.40%;
- (iv) the above loan arrangements are secured by assets of Mr. Qiu and Ms. Wang and Jiezhixing with an aggregate value which exceeds the aggregate amount of loan arrangements; and
- (v) the release of the guarantee provided by the Group Jiezhixing's existing outstanding bank borrowings with a commercial bank in the principal amount of RMB130,000,000,

the payment arrangement under the Termination Framework Agreement is in fact a deferred payment schedule, earning interest on the unpaid amount at the basic lending rate issued by the People's Bank of China which is higher than the deposit rate earned by the Group for the year ended 30 September 2009, and secured by securities to be granted by Mr. Qiu, Ms. Wang and Jiezhixing in favour of the Dragonlight Entities. Having considered the above, we are of the view that the payment terms of the Termination Framework Agreement are acceptable.

(3) Consideration of the Call Option Termination Agreement

Pursuant to the Call Option Termination Agreement, Mr. Qiu has agreed to return to the Company a portion of the Call Option premium in cash within 15 days after receipt by Dragonlight China of the full amount of the registered capital of RMB32,140,000. Such cash amount is expected to be calculated by multiplying the number of Shares issued by the then prevailing Share price, subject to a maximum amount of approximately HK\$17.0 million.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As noted in the Letter from the Board, the Call Option was initially granted by Mr. Qiu for the benefit of the Group so that the Group may (but is not obliged to) acquire from Mr. Qiu at any time during the exercise period the remaining 50% interest in Jiezhixing. After arm's length negotiations between the Group and Mr. Qiu, both parties have agreed that as part and parcel of the Terminations, a portion of the premium will be returned. While the carrying amount of the Call Option as at 30 September 2009 was approximately US\$3.4 million, as the Company has no intention of exercising the Call Option following completion of the Termination, and the Call Option is not transferable, the historical carrying amount of the Call Option is a "sunk" cost and is irrelevant to the determination of the consideration of the Call Option Termination Agreement. In light of this, the Directors consider that the amount of premium to be returned is fair and reasonable for the Group and is in the interest of the Group and its Shareholders as a whole.

Having considered that (i) the Total Consideration under the Termination Framework Agreement is fair and reasonable; (ii) the Call Option Termination Agreement, including the partial return of the Call Option premium, is part and parcel of the Terminations, and is in line with the Company's intention to terminate from the Jiezhixing joint venture; (iii) Mr. Qiu has no obligation under the previous call option arrangement entered into with the Group to return the Call Option premium to the Company upon termination of the Call Option; and (iv) the return of a portion of the Call Option premium to the Company by Mr. Qiu is in addition to the Total Consideration under the Termination Framework Agreement, we are of the view that the consideration under the Call Option Termination Agreement is fair and reasonable.

(IV) Possible Financial Effects

Financial effects to the Company

After the Terminations, the Group will cease to hold any interest in Jiezhixing. We note from the Letter from the Board that as a result of the anticipated disposal of 50% interest in Jiezhixing and in accordance with the applicable Hong Kong Accounting Standards, an accounting loss in the amount of approximately US\$3.2 million (equivalent to approximately HK\$24,960,000) has been provided for in the consolidated income statements of the Company for the fiscal year ended 30 September 2009, which was 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 Jiezhixing as at 30 September 2009; and (b) the difference between the recoverable amount and the fair value of the Call Option as at 30 September 2009. As advised by the management of the Company, in determining the loss on disposal, the Company had not taken into account the effect on the release of the Price Adjustment Obligation of approximately RMB122 million. As a result of the Termination, the shareholders' equity of the Group is expected to decrease approximately US\$3.2 million (equivalent to approximately HK\$24,960,000). The amount of the actual loss to be recorded by the Company is dependent on the performance of Jiezhixing between the period from 1 October 2009 to the date of completion of the disposal of the Group's interest in Jiezhixing.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Working capital

Upon completion of the Terminations, the Group will receive (i) the Registered Capital Consideration in one lump sum, and (ii) the Dividend Payment and the existing entrusted loans in three annual instalments in the proportion of 20% in the first year, 30% in the second year and the remaining 50% in the third year. We note from the Letter from the Board that the Company intends to apply the proceeds from the Terminations for general working capital purpose. Therefore, we are of the view that the Terminations will improve the working capital position of the Group.

Our view

Having considered that, (i) the loss on disposal as a result of the Terminations is non-cash in nature and had not taken into account the effect on the release of the Price Adjustment Obligation of approximately RMB122 million; (ii) the Total Consideration is fair and reasonable; and (iii) the proceeds from the Terminations will improve the working capital position of the Group, we are of the view that the financial effects to the Company arising from the Terminations is acceptable.

RECOMMENDATION

Having considered the principal factors and reasons referred to in the above, we consider that the entering into of the Transaction Documents is in the ordinary and usual course of business of the Group, and the terms of the Transaction Documents as a whole are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to approve the entering into of the Transaction Documents if the Company were to convene a general meeting for the approval of the entering into of the Transaction Documents.

Yours faithfully,
For and on behalf of
CIMB Securities (HK) Limited
Heidi Cheng **Anthony Ng**
Director *Senior Vice President*

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts not contained in this circular the omission of which would make any statement herein misleading.

2. DISCLOSURE OF INTERESTS

(I) Directors' Interests

(a) *Interests and/or short positions of the Directors and chief executives*

As at the Latest Practicable Date, the interests and/or short positions of our Directors and chief executives of our Company in the Shares, underlying Shares or debentures of our Company and its associated corporations (within the meaning of Part XV of the SFO) which are required to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are taken or deemed to have under such provisions of the SFO), or which are required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which are required to be notified to our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained set out in Appendix 10 to the Listing Rules adopted by the Company to be notified to the Company and the Stock Exchange are as follows:

Long position in the Shares and underlying Shares of our Company

Name of Director	Capacity/Nature of interest	Number of Shares	Approximate percentage of shareholding
Tsai David, Nai Fung	Beneficial Interest	3,037,000 Shares	0.07%
Tsai Patty, Pei Chun	Beneficial Interest	4,460,000 Shares	0.10%
Chang Karen Yi-Fen	Beneficial Interest	3,800,000 Shares ⁽¹⁾	0.09%

(1) These Shares represent underlying shares of share options granted to the Directors on 21 January 2010 under the share option scheme of the Company adopted on 14 May 2008.

(II) Shareholder's Interests*Interests and/or short positions of the Substantial Shareholders*

As at the Latest Practicable Date, so far as the Directors or chief executives of the Company are aware, the following persons (not being a Director or a chief executive of our Company) had an interest or short position in the Shares or underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group:

(i) Interest in the Shares and underlying Shares

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	(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%

Notes:

All the above are long positions.

(a) 2,408,344,622 Shares are held by Major Focus. Major Focus is 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 approximately 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-I.

(ii) *Substantial Shareholders of other members of the Group*

Name of entities or person holding 10% or more interest in a member of the Group	Nature of interest	Interest in relevant company	Name of the subsidiary
Weifang Liwei Economic and Trading Company Limited (濰坊力威經貿有限公司)	Beneficial	28%	Qingdao Baoruina Sports Goods Company Limited (青島寶瑞納體育用品有限公司)
Glorious Win Developments Limited	Beneficial	10%	Fujian Baomin Sports Goods Company Limited (福建寶閩體育用品有限公司)
Qiu Xiaojie (邱小杰)	Beneficial	20%	Hubei Shengdao Sports Goods Company Limited (湖北勝道體育用品有限公司)
Xu Feng (徐風)	Beneficial	20%	Hubei Shengdao Sports Goods Company Limited (湖北勝道體育用品有限公司)
Lu Shan (盧山)	Beneficial	16%	Yunnan Shengdao Sports Goods Company Limited (雲南勝道體育用品有限公司)
Lu Li (盧力)	Beneficial	16%	Yunnan Shengdao Sports Goods Company Limited (雲南勝道體育用品有限公司)
Parfeuri Investments Limited	Beneficial	49%	Profit Concept Group Limited
Sharp Peak Group Limited	Beneficial	34.33%	Business Network Holdings Limited
Jianxi Hungfa Sports Goods Development Company Limited (江西洪發體育用品發展有限公司)	Beneficial	22.33%	Jianxi Baohong Sporting Goods Co., Ltd. (江西寶洪體育用品有限公司)

Save as disclosed above, as at the Latest Practicable Date, the Directors and chief executive of the Company are not aware of any other persons (not being a Director 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 under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were, directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or had any options in respect of such capital.

3. DIRECTORS' INTERESTS IN COMPETING BUSINESSES

Three of the Directors, namely Mr. Tsai David, Nai Fung, Ms. Tsai Patty, Pei Chun and Ms. Kuo, Li-Lien, are directors of Yue Yuen. Yue Yuen is the Company's controlling shareholder and whose principal activities are OEM/ODM footwear manufacturing business. As the Company and Yue Yuen are separate listed entities run by separate and independent management, the Directors believe that the Company is capable of carrying on its business independently of, and at arms length from, Yue Yuen.

There is potentially a little competition between the manufacturing business of the Company and Yue Yuen. On May 23, 2008, the Company entered into the business separation deed (the "Business Separation Deed") with Yue Yuen to put in place certain mechanisms to separate the Company's manufacturing businesses from those of Yue Yuen. During the year ended September 30, 2009 and up to the Latest Practicable Date, there were four new brand owners, namely "Lotto", "Diadora", "Pony" and "Footzone" (the "New Business"), who asked the Company to manufacture for them. Pursuant to the Business Separation Deed, the Company had obtained the permission from Yue Yuen for engaging in the New Business. The Company confirmed that it complied with the undertakings given by it under the clauses as stipulated in the Business Separation Deed.

Save as described above, as at the Latest Practicable Date, none of the Directors has an interest in any business, which competes or may compete, directly or indirectly with the Group's business.

4. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with any member of the Group which was not determinable by the Group within one year without payment of compensation (other than statutory compensation).

5. INTERESTS IN ASSETS AND/OR CONTRACTS AND OTHER INTERESTS

As at the Latest Practicable Date, none of the Directors or expert described in paragraph 7 of Appendix I to this circular had any direct or indirect interest in any assets which had been, since 30 September 2009, being the date to which the latest published audited accounts of the Company were made up, acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement which is significant in relation to the business of the Group.

6. MATERIAL ADVERSE CHANGES

The Directors are of the opinion that there has not been any material adverse change in the financial or trading position of the Group since 30 September 2009, being the date to which the latest published audited accounts of the Group were made up.

7. EXPERTS AND CONSENTS

The following are the qualifications of the expert who has given opinions or advice which are contained in this circular:

Name	Qualification
CIMB Securities (HK) Limited	a corporation licensed under the SFO to carry on type 1 (dealing in securities), 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities

The above expert has given and has not withdrawn its written consent to the issue of this circular, with the inclusion of its letter as set out in this circular and references to its name in the form and context in which they appear respectively.

As at the Latest Practicable Date, the above expert was not beneficially interested in the share capital of any member of the Group, nor did it have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group, nor did it have any interest, either direct or indirect, in any assets which had been since 30 September 2009 (being the date which latest published audited financial statements of the Company were made up) acquired or disposed of by or leased to or were proposed to be acquired or disposed of by or leased to any member of the Group.

8. MISCELLANEOUS

- (a) The registered office of the Company is situated at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The head office and principal place of business of the Company is situated at Suites 3108-11, 31st Floor, Tower 6, The Gateway, 9 Canton Road, Tsimshatsui, Kowloon, Hong Kong.
- (b) The company secretary of the Company is Mr. Ng Lok Ming. Mr. Ng was admitted as a solicitor of the High Court of Hong Kong in 2001.
- (c) The branch share registrar and transfer office of the Company in Hong Kong is Computershare Hong Kong Investor Services Limited of Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (d) The English text of this circular shall prevail over the Chinese text in case of any inconsistency.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours at the offices of the Company at Suites 3108-11, 31st Floor, Tower 6, The Gateway, 9 Canton Road, Tsimshatsui, Kowloon, Hong Kong from the date of this circular up to and including 14 April 2010:

- (a) the memorandum of association and bye-laws of the Company;
- (b) the Prospectus;
- (c) the letter from CIMB, the text of which is set out on pages 12 to 23 of this circular;
- (d) the letter from the Independent Board Committee, the text of which is set out on page 11 of this circular;
- (e) the Transaction Documents;
- (f) business separation deed dated 23 May 2008 entered into between the Company and Yue Yuen to put in place certain mechanisms to separate the Company's manufacturing business from Yue Yuen;
- (g) joint venture agreements dated 12 March 2007 and 30 March 2007 in relation to Jiezhixing;
- (h) call option agreement dated 15 October 2007 in relation to the Call Option; and
- (i) a copy of this circular.