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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)

**UNAUDITED INTERIM RESULTS
FOR THE SIX MONTHS ENDED JUNE 30, 2023**

THE GROUP'S FINANCIAL HIGHLIGHTS			
	For the six months ended June 30,		Change
	2023	2022	
Financial performance	RMB'000	RMB'000	
	(unaudited)	(unaudited)	
Revenue	10,960,001	9,864,815	11.1%
Gross profit	3,670,684	3,495,946	5.0%
Operating profit	472,818	208,329	127.0%
Profit attributable to owners of the Company	305,465	17,413	1,654.2%
Gross profit margin (%)	33.5%	35.4%	-1.9 ppt
Operating profit margin (%)	4.3%	2.1%	2.2 ppt
Basic earnings per share (RMB cents)	5.90	0.34	1,635.3%
Dividend per share – interim dividend (HK\$)	0.0185	–	N/A
	As at		
	June 30,	December 31,	
	2023	2022	
Financial position	RMB'000	RMB'000	
	(unaudited)	(audited)	
Inventories	4,672,120	6,071,858	-23.1%
Trade and other receivables	2,529,744	2,149,713	17.7%
Cash and cash equivalents	2,024,918	1,190,148	70.1%
Bank borrowings	91,991	456,162	-79.8%

RESULTS

The board (the “Board”) of directors (the “Directors”) of Pou Sheng International (Holdings) Limited (the “Company”) announces the unaudited interim results of the Company and its subsidiaries (collectively referred to as the “Group”) for the six months ended June 30, 2023 with the corresponding comparative figures as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended June 30, 2023

		For the six months ended June 30,	
	Notes	2023 RMB'000 (unaudited)	2022 RMB'000 (unaudited)
Revenue	3	10,960,001	9,864,815
Cost of sales		(7,289,317)	(6,368,869)
Gross profit		3,670,684	3,495,946
Other operating income and gains (losses)		112,480	164,243
Selling and distribution expenses		(2,913,620)	(3,075,931)
Administrative expenses		(396,726)	(375,929)
Operating profit		472,818	208,329
Finance costs	5	(49,513)	(91,451)
Finance income		14,159	10,583
Other losses		(35,354)	(80,868)
		–	(6,274)
Profit before taxation		437,464	121,187
Income tax expense	4	(118,497)	(97,000)
Profit for the period	5	318,967	24,187
Attributable to:			
Owners of the Company		305,465	17,413
Non-controlling interests		13,502	6,774
		318,967	24,187
Earnings per share	7		
– Basic		RMB5.90 cents	RMB0.34 cent
– Diluted		RMB5.90 cents	RMB0.34 cent

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended June 30, 2023

	For the six months ended June 30,	
	2023	2022
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Profit for the period	318,967	24,187
Other comprehensive expense		
<i>An item that will not be reclassified to profit or loss</i>		
Fair value loss on investments in equity instrument at fair value through other comprehensive income	–	(1,155)
<i>An item that may be reclassified subsequently to profit or loss</i>		
Exchange differences arising on translation of foreign operations	<u>(1,988)</u>	<u>(727)</u>
Other comprehensive expense for the period	<u>(1,988)</u>	<u>(1,882)</u>
Total comprehensive income for the period	<u>316,979</u>	<u>22,305</u>
Attributable to:		
Owners of the Company	303,477	15,531
Non-controlling interests	<u>13,502</u>	<u>6,774</u>
	<u>316,979</u>	<u>22,305</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At June 30, 2023

		At June 30, 2023	At December 31, 2022
<i>Note</i>		RMB'000 (unaudited)	RMB'000 (audited)
Non-current assets			
Investment properties		87,700	87,700
Property, plant and equipment		810,690	886,396
Right-of-use assets		2,022,871	2,281,544
Deposits paid for acquisition of property, plant and equipment		30,205	36,934
Rental deposits		128,324	143,467
Intangible assets		70,737	61,815
Goodwill		522,163	522,163
Interests in joint ventures		–	–
Equity instrument at fair value through other comprehensive income		1,854	1,813
Deferred tax assets		115,675	161,321
		3,790,219	4,183,153
Current assets			
Inventories		4,672,120	6,071,858
Trade and other receivables	8	2,529,744	2,149,713
Taxation recoverable		2,451	3,989
Bank deposits over 3 months		200,000	–
Cash and cash equivalents		2,024,918	1,190,148
		9,429,233	9,415,708

		At June 30, 2023 RMB'000 (unaudited)	At December 31, 2022 RMB'000 (audited)
	<i>Note</i>		
Current liabilities			
Trade and other payables	9	2,152,978	2,190,904
Contract liabilities		439,058	447,916
Taxation payable		28,954	71,599
Bank borrowings		91,991	456,162
Lease liabilities		671,730	774,164
		<u>3,384,711</u>	<u>3,940,745</u>
Net current assets		<u>6,044,522</u>	<u>5,474,963</u>
Total assets less current liabilities		<u>9,834,741</u>	<u>9,658,116</u>
Non-current liabilities			
Deferred tax liabilities		23,750	24,569
Lease liabilities		1,298,634	1,439,627
		<u>1,322,384</u>	<u>1,464,196</u>
Net assets		<u><u>8,512,357</u></u>	<u><u>8,193,920</u></u>
Capital and reserves			
Share capital		46,438	46,438
Reserves		8,372,750	8,067,815
		<u>8,419,188</u>	<u>8,114,253</u>
Equity attributable to owners of the Company		8,419,188	8,114,253
Non-controlling interests		93,169	79,667
		<u>8,512,357</u>	<u>8,193,920</u>
Total equity		<u><u>8,512,357</u></u>	<u><u>8,193,920</u></u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

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

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments, which are measured at revalued amounts or fair values, as appropriate.

Other than additional/change in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards (“HKFRSs”), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended June 30, 2023 are the same as those presented in the Group’s annual consolidated financial statements for the year ended December 31, 2022.

Application of new and amendments to HKFRSs

In the current interim period, the Group has applied the following new and amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatorily effective for the Group’s annual period beginning on January 1, 2023 for the preparation of the Group’s condensed consolidated financial statements.

HKFRS 17 (including the October 2020 and February 2022 Amendments to HKFRS 17)	Insurance Contracts
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies
Amendments to HKAS 8	Definition of Accounting Estimates
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction
Amendments to HKAS 12	International Tax Reform-Pillar Two Model Rules

Except as described below, the application of the new and amendments to HKFRSs in the current interim period has had no material impact on the Group’s financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

2.1 Impacts and changes in accounting policies on application of Amendments to HKAS 12 “Deferred Tax related to Assets and Liabilities arising from a Single Transaction”

2.1.1 Accounting policies

The application of Amendments to HKAS 12 results in change in accounting policy for taxation:

Taxation

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit and at the time of the transaction does not give rise to equal taxable and deductible temporary differences. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 requirements to the lease liabilities and the related assets separately. The Group recognises a deferred tax asset related to lease liabilities to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised and a deferred tax liability for all taxable temporary differences.

2.1.2 Transition and summary of effects

As disclosed in the Group’s annual financial statements for the year ended December 31, 2022, the Group previously applied the HKAS 12 requirements to assets and liabilities arising from a single transaction as a whole and temporary differences relating to the relevant assets and liabilities were assessed on a net basis. Upon the application of the amendments, the Group assessed the relevant assets and liabilities separately. In accordance with the transition provision:

- (i) the Group has applied the new accounting policy retrospectively to leasing transactions that occurred on or after January 1, 2022;
- (ii) the Group also, as at January 1, 2022, recognised a deferred tax asset (to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised) and a deferred tax liability for all deductible and taxable temporary difference associated with right-of-use-assets and lease liabilities.

The Group recognised the deferred tax assets associated with the lease liabilities of approximately RMB703.8 million and RMB553.3 million as at January 1, 2022 and December 31, 2022 respectively and deferred tax liabilities associated with the right-of-use assets of approximately RMB671.9 million and RMB520.7 million as at January 1, 2022 and December 31, 2022 respectively on a gross basis but it has no impact on the Group's financial position as the related deferred tax assets and liabilities continue to offset for the purpose of presentation in the condensed consolidated statement of financial position. There is also no impact on the Group's performance and the accumulated profits at the earliest period presented.

2.2 *Impacts on application of Amendments to HKAS 1 and HKFRS Practice Statement 2 “Disclosure of Accounting Policies”*

In addition, the Group has applied Amendments to HKAS 1 and HKFRS Practice Statement 2 “Disclosure of Accounting Policies” which are mandatorily effective for the Group's annual period beginning on January 1, 2023 for the preparation of the Group's consolidated financial statements for the year ending December 31, 2023.

HKAS 1 is amended to replace all instances of the term “significant accounting policies” with “material accounting policy information”. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

The amendments also clarify that accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material. If an entity chooses to disclose immaterial accounting policy information, such information must not obscure material accounting policy information.

HKFRS Practice Statement 2 “Making Materiality Judgements” (the “Practice Statement”) is also amended to illustrate how an entity applies the “four-step materiality process” to accounting policy disclosures and to judge whether information about an accounting policy is material to its financial statements. Guidance and examples are added to the Practice Statement.

The application of the amendments in the current period has had no material impact on the condensed consolidated financial statements but is expected to affect the disclosures of the Group's accounting policies in the Group's annual consolidated financial statements for the year ending December 31, 2023.

3. REVENUE AND SEGMENTAL INFORMATION

The Group is principally engaged in the distribution and retailing of sportswear and footwear products and provision of large scale commercial spaces to retailers and distributors for commissions from concessionaire sales. The Group's results and revenue are reported as a whole on a regular basis to the chief operating decision maker, being the executive directors of the Company, for the purposes of performance assessment and resource allocation.

The following is an analysis of the Group's revenue recognised at a point in time:

	For the six months ended June 30,	
	2023	2022
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Sales of sportswear and footwear products	10,897,233	9,807,723
Commissions from concessionaire sales	62,768	57,092
	<u>10,960,001</u>	<u>9,864,815</u>

4. INCOME TAX EXPENSE

	For the six months ended June 30,	
	2023	2022
	RMB'000	RMB'000
	(unaudited)	(unaudited)
People's Republic of China Enterprise Income Tax		
– Current period	88,930	103,746
– (Over)underprovision in prior periods	(15,260)	9,297
Withholding tax on dividend	–	13,635
	<u>73,670</u>	<u>126,678</u>
Current tax charge – total	73,670	126,678
Deferred tax charge (credit)	44,827	(29,678)
	<u>118,497</u>	<u>97,000</u>

5. FINANCE COSTS/PROFIT FOR THE PERIOD

	For the six months ended June 30,	
	2023	2022
	RMB'000	RMB'000
	(unaudited)	(unaudited)
(a) Finance costs		
Interest expenses on bank borrowings	5,250	33,733
Interest expenses on advance from a related party	72	61
Interest expenses on lease liabilities	44,191	57,657
	<u>49,513</u>	<u>91,451</u>
(b) Profit for the period		
Profit for the period has been arrived at after charging (crediting):		
Total staff costs (included in selling and distribution expenses and administrative expenses)	1,193,904	1,258,961
Depreciation of right-of-use assets	452,947	568,551
Depreciation of property, plant and equipment	189,048	254,500
Net changes in allowance for inventories (included in cost of sales)	(15,357)	84,006
Amortisation of intangible assets (included in selling and distribution expenses)	4,376	4,219
Gross rental income from investment properties, net of direct expenses	(2,000)	(2,012)
Loss on disposal/written off of property, plant and equipment (included in other operating income and gains (losses))	18,288	5,600
Impairment losses recognised on trade and other receivables, net (included in other operating income and gains (losses))	9,826	3,455
Impairment losses recognised on property, plant and equipment (included in other losses)	–	2,471
Impairment losses recognised on right-of-use assets (included in other losses)	–	3,803
	<u>–</u>	<u>3,803</u>

For the six months ended June 30, 2023 and 2022, cost of inventories recognised as an expense represents cost of sales as shown in the condensed consolidated income statement.

6. DIVIDENDS

For the six months ended June 30,	
2023	2022
<i>RMB'000</i>	<i>RMB'000</i>
(unaudited)	(unaudited)

Dividends recognised as distribution during the period:

2022 final dividend of nil per share (six months ended June 30, 2022: 2021 final dividend of HK\$0.016 per share)	–	70,805
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Subsequent to the end of the current interim period, the Directors have determined that an interim dividend of HK\$0.0185 per share amounting to HK\$98,534,000 in aggregate (six months ended June 30, 2022: nil) will be paid to the shareholders of the Company whose names appear in the register of members of the Company on Thursday, September 14, 2023.

7. EARNINGS PER SHARE

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

For the six months ended June 30,	
2023	2022
<i>RMB'000</i>	<i>RMB'000</i>
(unaudited)	(unaudited)

Earnings:

Earnings for the period attributable to owners of the Company for the purposes of basic and diluted earnings per share	<u>305,465</u>	<u>17,413</u>
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For the six months ended June 30,	
2023	2022
(unaudited)	(unaudited)

Number of shares:

Weighted average number of ordinary shares for the purpose of basic earnings per share	5,176,758,596	5,172,690,740
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Effect of dilutive potential ordinary shares:

– Unvested awarded shares	<u>4,103,788</u>	<u>5,800,905</u>
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Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>5,180,862,384</u>	<u>5,178,491,645</u>
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For the purpose of computation of basic earnings per share, the weighted average number of ordinary shares shown above has been arrived at after deducting the shares held by the trustee of the share award scheme of the Company.

8. TRADE AND OTHER RECEIVABLES

The Group generally allows credit periods of 30 days to 60 days which are agreed with each of its trade customers. The aged analysis of the Group's trade receivables, net of allowance for credit losses, presented based on the invoice date at the end of the reporting period, which approximated to the respective revenue recognition dates, is as follows:

	At June 30, 2023 <i>RMB'000</i> (unaudited)	At December 31, 2022 <i>RMB'000</i> (audited)
0 – 30 days	966,480	820,300
31 – 90 days	49,638	41,784
	1,016,118	862,084

9. TRADE AND OTHER PAYABLES

The aged analysis of the Group's trade and bills payables, presented based on the invoice date/issuance date of the bills at the end of the reporting period, is as follows:

	At June 30, 2023 <i>RMB'000</i> (unaudited)	At December 31, 2022 <i>RMB'000</i> (audited)
0 – 30 days	873,542	518,651
31 – 90 days	1,581	745
Over 90 days	–	300,000
	875,123	819,396

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Business Environment

For the six months ended June 30, 2023 (the “Period”), the Group saw decent recovery momentum with increased foot traffic to its brick and mortar (“B&M”) channels and improved purchasing intent following the lifting of all control measures in mainland China. It also benefited from a low base effect stemming from the escalation of lockdowns in the same period of last year. Further, sales recovery in the footwear and apparel retail sector showed signs of outperforming the recovery of overall consumer spending in mainland China. According to the National Bureau of Statistics of China, consumption of garments, footwear, hats and knitwear rose 12.8% year-on-year in the first half of 2023, compared to a 8.2% recovery in total retail sales of consumer goods.

Meanwhile, the Group’s omni-channels remained robust during the Period, with its private domain channels, including its WeChat stores, Douyin live-streaming shopping events and shopping mall membership platforms seeing a strong sales growth of over 50%. This resilience demonstrated the effectiveness of the Group’s ongoing digital transformation and how its implementation is incrementing and complementing offline sales.

As the Group continues to position itself to take full advantage of economic recovery in the Greater China region, the Group is continuing to be highly agile and flexible in its decision-making and in progressing its retail refinement strategy. This includes further streamlining and rightsizing its B&M network while strengthening its online public and private traffic domains to diversify its channel mix, in order to facilitate clearance of slow-moving merchandise and to enhance cash conversion efficiency. Amid the volatile market environment, it continues to focus on conversion rates and in-season full-price sales, while deepening its engagement with customers and improving its operational efficiency. The Group also continues to intensify its collaboration with its brand partners to create a seamless shopping experience for its customers in a way that prioritises healthier sales while enhancing membership program and inventory integration.

Hybrid Channel Management – B&M

Sales momentum in the Group’s B&M network has been recovering since the lifting of all control measures. Overall B&M performance was fuelled by improving yet still unstable offline traffic and is also being enhanced by a low base effect, although the influence of this varies considerably from month to month according to lockdown conditions in different regions of mainland China in the corresponding period of 2022. Throughout the Period, the Group continued to progress its retail refinement strategy, closing or upgrading underperforming stores, while adopting a holistic view towards new store openings: optimising its investment returns as a whole by prioritising geographic regions with an outstanding operating track record and convincing potential, with stores only being opened following a thorough assessment and not only in accordance with allocations from brands. As at June 30, 2023, the Group had 3,723 directly operated stores across the Greater China region.

Movement of directly operated stores during the six months ended:

	June 30, 2023	June 30, 2022
At the beginning of the period	4,093	4,631
Net decrease	<u>(370)</u>	<u>(176)</u>
At the end of the period	<u>3,723</u>	<u>4,455</u>

Numbers and percentages of directly operated stores by size as at:

	June 30, 2023		June 30, 2022	
	<i>Number</i>	%	<i>Number</i>	%
Selling area				
300 m ² or smaller	2,988	80.3	3,702	83.1
Larger than 300 m ²	<u>735</u>	<u>19.7</u>	<u>753</u>	<u>16.9</u>
Total	<u>3,723</u>	<u>100.0</u>	<u>4,455</u>	<u>100.0</u>

B&M retail channels remain a critical and irreplaceable sales touchpoint for consumers in the Greater China region who want to discover new products and experience a unique, personalised and seamless shopping experience for sports products and services. During the Period, the Group continued to invest in optimising store formats and accelerated its digital transformation by integrating its WeChat stores, membership programmes and other digital services and tools into its B&M network, which, in turn, enriched the consumer experience and stimulated higher units per transaction and average transaction value. The Group continued investing in enhancing repeat purchases and higher-margin in-season sales within its core offline network, albeit the tentative higher sales contribution from discounted stores.

Hybrid Channel Management – Omni-channels

The Group's omni-channels include its public traffic domains, covering the operation of third-party platforms such as Tmall, JD and Vipshop, as well as its increasingly important private traffic domain – the Pan-WeChat Ecosphere – which covers its WeChat stores, Douyin live-streaming shopping events and shopping mall membership platforms. During the Period, the Group continued to strengthen and grow its omni-channels, further deepening and expanding its engagement with shoppers while delivering better operational efficiency.

The Group's online sales momentum has proven to be highly robust, pushing revenue growth and effective inventory management despite the return of foot traffic to its B&M network and recovering offline sales. Its omni-channels collectively contributed approximately 25% of total sales during the Period, a relatively high level as compared to 21% of total sales in the same period last year during which its offline channels were adversely affected by control measures.

As the Group further elevated its digital operation capabilities, its private traffic domain channels, in particular, experienced strong sales growth during the Period with the Pan-WeChat Ecosphere proving to be an increasingly lucrative and effective sales channel that is successfully delivering better conversion rates, shorter sales cycles and more full-price in-season sales transacted at an earlier time for its direct business.

The Group's WeChat stores also serve as an extension of its B&M network, providing quality and comprehensive customer services. Within the Pan-WeChat Ecosphere, the Group has optimised the scope of its Douyin live-streams conducted by designated Key Opinion Staff during the Period, further localising content from the regional level to the store level. It also continued to embed value-added services, diverse content and member-exclusive benefits stemming from its integrated membership programmes with its brand partners into the Pan-WeChat Ecosphere to achieve quality incremental sales. It will continue to invest in and allocate more resources to its private traffic domain channels to generate sustainable consumer loyalty, boosted by the provision of more membership-related services.

Enhanced Strategic Alliances with Business Partners

The Group further deepened its strategic partnerships with its brand partners, particularly in areas such as providing an impeccable and diverse shopping experience and consumer connectivity. Leveraging its YYsports WeChat Mini-Program in the Greater China region, the Group continued to boost its membership programmes while offering diversified sports services content, interactive features and other related services to support in-depth membership management and to facilitate a premium and seamless online and offline customer experience. Through the increased integration and direct connection of its membership programmes with brand partners, it further supported membership growth and increased in-season sell-through.

Moreover, the Group continued to reinforce its product-sharing platform ("PSP") and enhance its Omni-Hub programme with brand partners to efficiently share products and services across different platforms and channels to optimise its inventory mix, accelerate its sales, facilitate a virtuous inventory cycle and optimise its services to loyal members and consumers.

Strengthened Operational Excellence with Digital Transformation

During the Period, the Group invested further in upgrading its Enterprise Resource Planning (“ERP”) system, business intelligence platform, PSP and other digital tools to drive future retail excellence, particularly in areas such as real-time in-store efficiency, resource optimisation as well as membership services through digital empowerment. It also rolled out Personal Digital Assistants (“PDA”) to its B&M stores, a dashboard-style system that enables store staff to manage inventory more effectively, boosting store-level efficiency.

The Group’s ongoing investments in its omni-channels, alongside its retail refinement strategy, remain essential for developing its unique core competencies, maintaining its competitiveness and supporting its long-term development. It continued to streamline its operations to enhance people efficiency and cost competitiveness and shorten the sales cycle. Through these aforementioned efforts, the Group is confident that it will be more adaptable to the ever-changing operating environment while capturing long-term growth opportunities.

Performance Analysis

Financial Review

During the Period, the Group recorded revenue of RMB10,960.0 million, representing an increase of 11.1% compared with the same period of last year. Gross profit was RMB3,670.7 million, representing an increase of 5.0% when compared to the same period of last year. Profit attributable to owners of the Company for the first half of 2023 increased by 1,654.2% to RMB305.5 million.

Revenue

The Group’s total revenue during the Period increased 11.1% to RMB10,960.0 million as compared with the same period of last year. The increase was mainly attributed to a recovery in offline traffic and purchasing intent following the lifting of all pandemic control and social distancing measures in mainland China, the robust sales growth of omni-channels, in particular its Pan-WeChat Ecosphere, as well as a low base effect.

	For the six months ended		
	June 30,		
	2023	2022	Change
	RMB million	RMB million	
Revenue	10,960.0	9,864.8	11.1%
Cost of sales	(7,289.3)	(6,368.9)	14.5%
Gross profit	3,670.7	3,495.9	5.0%
Gross profit margin (%)	33.5%	35.4%	-1.9 ppt

Gross Profit

The Group's gross profit during the Period amounted to RMB3,670.7 million with a gross profit margin of 33.5%. Despite the well-managed discount control, the gross profit margin decreased 1.9 percentage points compared to the same period of last year. The decrease was mainly attributed to negative impact from channel mix.

Selling & Distribution Expenses and Administrative Expenses

The Group's selling and distribution expenses during the Period were RMB2,913.6 million (first half of 2022: RMB3,075.9 million), accounting for 26.6% of the Group's revenue (first half of 2022: 31.2%). Selling and distribution expenses primarily include concessionaire fees, depreciation of right-of-use assets in relation to stores, sales personnel salaries and commissions, other depreciation and amortisation charges, and other expenses that mainly include store operation expenses, property management fees, logistic expenses and other expenses.

Administrative expenses during the Period were RMB396.7 million (first half of 2022: RMB375.9 million), accounting for 3.6% of the Group's revenue (first half of 2022: 3.8%). Administrative expenses primarily include management and administrative personnel salaries, depreciation and amortisation charges and other expenses.

The Group's selling and distribution expenses and administrative expenses during the Period were RMB3,310.3 million, a decrease of 4.1% compared to the first half of 2022. This was equivalent to 30.2% of total revenue, a decrease of 4.8 percentage points year-on-year, with the savings benefited from active management on rental and people efficiency that delivered operational excellence, as well as operating leverage.

Operating Profit

The Group's operating profit during the Period was RMB472.8 million, representing an increase of 127.0% with an operating margin of 4.3%, an increase of 2.2 percentage points year-on-year.

Finance Income and Finance Costs

Finance income during the Period was RMB14.2 million, compared to RMB10.6 million in the first half of 2022. Finance costs during the Period recorded a sharp decrease of 45.9% to RMB49.5 million, compared to RMB91.5 million in the first half of 2022, primarily as a result of the efforts in debt repayment and a decrease in interest expenses on lease liabilities during the Period.

Profit for the Period

As a result of the aforementioned efforts, the Group recorded a net profit of RMB319.0 million during the Period, representing a significant increase of 1,218.8% as compared with the corresponding period of 2022. Profit attributable to owners of the Company for the first half of 2023 increased by 1,654.2% to RMB305.5 million as compared with the corresponding period of 2022.

Working Capital Efficiency

The average inventory turnover period for the first half of 2023 improved significantly to 133 days (first half of 2022: 202 days). The balance of inventory as at June 30, 2023 was RMB4,672.1 million, a decrease from RMB6,071.9 million as at December 31, 2022, which was attributed to the Group's efforts to clear excess inventory and to enhance inventory efficiency. The average trade receivables turnover period was 16 days (first half of 2022: 21 days), which remained consistent with the credit terms of 30 to 60 days that the Group gave its department store counters and retail distributors. The average trade payables turnover period during the Period was 21 days (first half of 2022: 34 days).

Liquidity and Financial Resources

As at June 30, 2023, the Group has solid bank balances and cash (which consist of bank deposits over 3 months and cash and cash equivalents) amounting to RMB2,224.9 million (December 31, 2022: RMB1,190.1 million) while working capital (current assets minus current liabilities) was RMB6,044.5 million (December 31, 2022: RMB5,475.0 million). Total bank borrowings were further reduced by 79.8% to RMB92.0 million (December 31, 2022: RMB456.2 million). All bank borrowings are short-term in nature which are repayable within one year. Bank balances and cash and bank borrowings were mainly denominated in Renminbi. The Group's loans under a fixed rate arrangement made up approximately 100% (December 31, 2022: 92%) of its total bank borrowings.

The Group's gearing ratio as of June 30, 2023, represented by total interest-bearing borrowings (excluding lease liabilities) as a percentage of total equity, was 1.1% (December 31, 2022: 5.6%). The net cash position (bank balances and cash minus bank borrowings) saw a soaring increase to RMB2,132.9 million (December 31, 2022: RMB734.0 million).

The net cash generated from operating activities during the Period was RMB2,021.0 million. The Group believes its liquidity requirements will be satisfied with the combination of capital generated from operating activities and future bank borrowings. The net cash used in investing activities during the Period was RMB332.7 million, while the net cash used in financing activities was RMB853.3 million.

Capital Expenditure

The Group continued its selective and prudent approach to capital expenditure planning in the areas of strategic new store openings, ongoing upgrades and the expansion of experience-driven B&M stores that offer a better shopping experience and store productivity improvements, as well as further optimising and upgrading its online and B&M networks to capture growth opportunities. Total capital expenditure during the Period increased to RMB157.3 million (first half of 2022: RMB143.8 million). As at June 30, 2023, the Group had no material contingent liabilities.

As at June 30, 2023, capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements was RMB53.8 million (December 31, 2022: RMB62.7 million). The Group also entered into new leases for several retail stores that have not yet commenced, with an average non-cancellable period ranging from 1 to 3 years (December 31, 2022: 1 to 3 years), with the total future undiscounted cash flows over the non-cancellable period amounting to RMB7.6 million (December 31, 2022: RMB21.4 million).

Foreign Exchange

The Group conducts its business primarily in the Greater China region and the majority of its transactions are denominated in Renminbi. As at June 30, 2023, the Group had no significant hedging financial instruments for managing its foreign exchange exposure. As the exchange rate of the Renminbi against foreign currencies may fluctuate, the Group may enter into forward contracts, currency swaps or options to hedge against currency risks arising from foreign currency transactions when necessary.

The Group has a dedicated treasury division and internal treasury policies and approval guidelines to manage and control the Group's exposure to structured deposit investments. The use of derivatives and approval procedures during the Period was in accordance with the Group's internal policies and guidelines.

PROSPECTS AND FUTURE DEVELOPMENTS

The Group is reasonably optimistic that the recovery momentum will continue into the second half of 2023. Its overall top-line recovery will be supported by purchasing intent and a relative low base effect although the extent of this will vary month to month due to the uneven impact that control measures had on the Group's business in the corresponding periods of 2022.

The Group is also confident about the ongoing resilience of its omni-channels and the outperformance of its higher margin Pan-WeChat Ecosphere as it continues to accelerate its digital transformation to drive its profitable growth and further margin improvement. The Group will continue to optimise its omni-channels, aiming to become less reliant on promotions and improving its inventory management efficiency to achieve a better margin profile and operational efficiency.

Regarding offline channel, the Group will continue to prioritise store-level profitability and efficiency through implementing its retail refinement strategy of upgrading and refining its B&M network to offer a digitally-enabled and superior customer experience, while exploring new cooperation opportunities with business partners that will ultimately drive sustainable growth. The Group will also further upgrade its ERP system and business intelligence platforms, and invest in other digital empowerment tools, such as PDA, smart product allocation artificial intelligence, dashboard and E-POS to better support its operations, optimise its inventory management and improve its working

capital efficiency. It will continue to drive its offline and online sales growth and reinforce its in-season sell-through, off-season clearance and margin growth through its PSP, a more agile procurement strategy and more effective inventory management.

The Group will seek to further enhance its strategic cooperation with its brand partners, including its Omni-Hub programme for inventory sharing. It is also committed to expanding its integrated membership programmes with brand partners and connecting these membership services with its growing number of digitally-enabled stores, allowing customers to access premium member-exclusive products, offers and experiences that are consistent with that available at the directly operated stores of these brands in the Greater China region.

Although the current external environment remains challenging, the prospects for the sports industry in the Greater China region remain bright, with authorities remaining committed to high-quality sports development and with the industry set to grow to RMB5 trillion in value by 2025. This will enable the Group to return to and exceed its previous growth momentum while strengthening its long-term operating performance and profitability.

HUMAN RESOURCES

As at June 30, 2023, the Group had approximately 23,700 employees in total, representing a decrease of 17.1% year-on-year. The Group provides competitive remuneration packages that are determined with reference to prevailing salary levels in the market and individual performance. The Company offers share awards to eligible employees in order to provide them with incentives and to recognise their contributions and ongoing efforts. In addition, the Group provides other fringe benefits, such as social insurance, mandatory provident funds, medical coverage and training programmes for employees based on their respective personal career development.

SHARE AWARD SCHEME

The share award scheme of the Company was adopted on May 9, 2014 and duly amended on November 11, 2016, which is valid and effective for a term of 10 years commencing on May 9, 2014 (the “Share Award Scheme”). It is funded by the existing shares of the Company (the “Shares”) and does not involve issue of new Shares. Any proposed award should be determined on the basis of individual performance and must be recommended by the remuneration committee of the Board and approved by the Board.

The total number of Shares to be awarded under the Share Award Scheme should not exceed 4% of the number of issued Shares (i.e. 5,326,179,615 Shares) as at the date of grant, which is 213,047,184. The maximum number of Shares (including vested and non-vested Shares) which may be awarded to a selected participant should not exceed 1% of the issued Shares from time to time, which is 53,261,796.

Under the Share Award Scheme, a total of 111,721,810 Shares, representing approximately 2.10% of the issued Shares, have been awarded and the total number of Shares available for being further awarded was/is 101,325,374, representing approximately 1.90% of the issued Shares, as at March 15, 2023 (being the date of the annual report of the Company for the year ended December 31, 2022) and the date of this announcement.

Eligible participant(s) selected by the Board for participation in the Share Award Scheme shall have no right to any dividend held under the trust before vesting which shall form part of the residual cash or any of the returned Shares. The trustee of the Share Award Scheme shall not exercise the voting rights in respect of any Shares held under the trust (including but not limited to the awarded Shares, the returned Shares, any bonus Shares and scrip dividend).

During the six months ended June 30, 2023, no share awards were granted, 126,400 share awards lapsed or were cancelled and 377,400 share awards were vested under the Share Award Scheme. As at June 30, 2023, an aggregate of 7,659,200 share awards which are subject to certain vesting conditions, remain unvested.

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK\$0.0185 in cash per Share for the six months ended June 30, 2023 (six months ended June 30, 2022: nil) to the holders of the Shares (the “Shareholders”) whose names appear on the register of members of the Company (the “Register of Members”) on Thursday, September 14, 2023. The interim dividend will be paid on Friday, October 6, 2023.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from Thursday, September 14, 2023 to Monday, September 18, 2023, both days inclusive, during which period no transfer of Shares will be effected. In order to qualify for the interim dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company’s branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Wednesday, September 13, 2023. The record date for entitlement to the interim dividend will be Thursday, September 14, 2023.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended June 30, 2023, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities (six months ended June 30, 2022: nil).

REVIEW OF ACCOUNTS

The audit committee of the Board has reviewed, with management and the independent auditor of the Company, the Group's unaudited condensed consolidated interim financial information for the six months ended June 30, 2023, the interim report, the accounting principles and practices adopted by the Group and has discussed risk management, internal controls, and financial reporting matters.

Deloitte Touche Tohmatsu, certified public accountants, the independent auditor of the Company has reviewed the unaudited condensed consolidated financial information of the Group for the six months ended June 30, 2023 in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA.

CORPORATE GOVERNANCE

The Company has applied the principles of, and has complied with all applicable code provisions and, where applicable, the recommended best practices of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules throughout the six months ended June 30, 2023.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as the Company's code of conduct for dealings in securities of the Company by Directors. Having made specific enquiry by the Company to all Directors, each of them has confirmed that he/she has complied with the required standard set out in the Model Code throughout the six months ended June 30, 2023.

PUBLICATION OF RESULTS ANNOUNCEMENT AND INTERIM REPORT

This announcement is published on the websites of the Company (www.pousheng.com) and the Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk). The 2023 interim report of the Company containing all applicable information required by the Listing Rules will be dispatched to the Shareholders and published on the above websites in due course.

ACKNOWLEDGEMENT

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

By Order of the Board
Yu Huan-Chang
Chairman

Hong Kong, August 11, 2023

As at the date of this announcement, the Board comprises:

Executive Directors

Mr. Yu Huan-Chang (Chairman), Mr. Liao, Yuang-Whang and Mr. Hu, Chia-Ho

Non-executive Directors

Ms. Tsai Patty, Pei Chun and Mr. Li I-nan

Independent Non-executive Directors

Mr. Chen, Huan-Chung, Mr. Feng Lei Ming and Mr. Liu, Hsi-Liang

Website: www.pousheng.com