YY SPORTS 胜道

POU SHENG INTERNATIONAL (HOLDINGS) LIMITED

寶 勝 國 際 （ 控 股 ） 有 限 公 司

(Incorporated in Bermuda with limited liability)

(Stock Code：3813)

INTERIM REPORT 2009

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GROUP FINANCIAL HIGHLIGHTS

	For the six months ended March 31, 2009	2008	Percentage increase (decrease)
Revenue *(US$'000)*	**533,895**	419,627	**27.2**
Profit attributable to equity holders of the Company *(US$'000)*	**4,784**	34,062	**(86.0)**
Basic earnings per share *(US cents)*	**0.13**	1.80	**(92.8)**
Dividend per share – Interim *(US cents)*	**-**	–	**-**

INTERIM RESULTS

The directors (the "Directors") of Pou Sheng International (Holdings) Limited (the "Company") are pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended March 31, 2009 with comparative figures for the corresponding period in 2008 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended March 31, 2009

		For the six months ended March 31,	
		2009	2008
		(unaudited)	*(unaudited)*
	NOTES	***US$'000***	*US$'000*
Revenue	*3*	**533,895**	419,627
Cost of sales		**(358,750)**	(261,965)
Gross profit		**175,145**	157,662
Other income		**7,312**	15,597
Selling and distribution expenses		**(142,136)**	(103,503)
Administrative expenses		**(46,370)**	(31,171)
Fair value changes on derivative financial instruments		**69**	8,011
Interests on bank borrowings wholly repayable within five years		**(8,658)**	(8,416)
Share of results of associates		**1,799**	2,616
Share of results of jointly controlled entities		**17,138**	9,294
Profit before taxation		**4,299**	50,090
Income tax expense	*4*	**(1,849)**	(9,591)
Profit for the period	*5*	**2,450**	40,499
Attributable to:			
Equity holders of the Company		**4,784**	34,062
Minority interests		**(2,334)**	6,437
		2,450	40,499
Earnings per share			
– Basic	*7*	**US0.13 cents**	US1.80 cents
– Diluted		**US0.13 cents**	N/A

INTERIM RESULTS

CONDENSED CONSOLIDATED BALANCE SHEET

At March 31, 2009

	NOTES	At March 31, 2009 (unaudited) US$'000	At September 30, 2008 (audited) US$'000
Non-current assets			
Property, plant and equipment	8	**202,203**	169,564
Deposit for acquisition of property, plant and equipment	8	**10,807**	22,447
Prepaid lease payments		**15,574**	15,772
Goodwill		**2,101**	2,101
Interests in associates		**21,801**	20,357
Loan to an associate		**18,164**	7,304
Interests in jointly controlled entities		**73,714**	65,207
Loans to jointly controlled entities		**74,977**	75,604
Available-for-sale investment		**1,000**	–
Rental deposits and prepayments		**32,266**	35,408
Deferred tax assets		**3,292**	1,908
		455,899	415,672
Current assets			
Inventories		**254,143**	250,623
Trade and other receivables	9	**194,786**	217,485
Rental deposits and prepayments		**4,803**	5,855
Prepaid lease payments		**482**	482
Taxation recoverable		**33**	154
Derivative financial instruments	10	**59,813**	59,744
Amounts due from jointly controlled entities		**8,828**	–
Amount due from a minority shareholder of a subsidiary		**–**	1,801
Pledged bank deposits		**–**	2,337
Bank balances and cash		**148,614**	183,253
		671,502	721,734
Current liabilities			
Trade and other payables	11	**144,264**	151,275
Taxation payable		**5,744**	6,728
Amounts due to minority shareholders of subsidiaries		**1,234**	1,919
Bank borrowings		**297,568**	306,288
		448,810	466,210
Net current assets		**222,692**	255,524
Total assets less current liabilities		**678,591**	671,196
Non-current liabilities			
Bank borrowings		**4,681**	5,843
Deferred tax liabilities		**3,463**	3,044
		8,144	8,887
Net assets		**670,447**	662,309
Capital and reserves			
Share capital	12	**4,575**	4,575
Reserves		**649,620**	641,141
Equity attributable to equity holders of the Company		**654,195**	645,716
Minority interests		**16,252**	16,593
Total equity		**670,447**	662,309

INTERIM RESULTS

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended March 31, 2009

	Equity attributable to equity holders of the Company										
	Share capital and paid up capital US$'000 (note 12)	Share premium US$'000	Special reserve US$'000 (note (i))	Other reserve US$'000 (note (ii))	Share-based compensation reserve US$'000	Non-distributable reserve US$'000 (note (iii))	Translation reserve US$'000	Accumulated profits US$'000	Total US$'000	Minority interests US$'000	Total US$'000
At October 1, 2007 (audited)	53,488	30,781	-	-	-	6,455	4,899	42,794	138,417	48,972	187,389
Exchange difference arising on the translation of financial statements recognised directly in equity	-	-	-	-	-	-	15,014	-	15,014	5,574	20,588
Profit for the period	-	-	-	-	-	-	-	34,062	34,062	6,437	40,499
Total recognised income and expense for the period	-	-	-	-	-	-	15,014	34,062	49,076	12,011	61,087
Incorporation/establishment of subsidiaries	12,000	-	-	-	-	-	-	-	12,000	-	12,000
Transfer	-	-	-	-	-	2,680	-	(2,680)	-	-	-
At March 31, 2008 (unaudited)	65,488	30,781	-	-	-	9,135	19,913	74,176	199,493	60,983	260,476
Exchange difference arising on the translation of financial statements recognised directly in equity	-	-	-	-	-	-	14,918	-	14,918	(2,748)	12,170
Profit for the period	-	-	-	-	-	-	-	35,962	35,962	3,240	39,202
Total recognised income and expense for the period	-	-	-	-	-	-	14,918	35,962	50,880	492	51,372
Arising from the Group reorganisation	(65,488)	(30,781)	96,269	-	-	-	-	-	-	-	-
Issue of shares	1,189	361,254	-	-	-	-	-	-	362,443	-	362,443
Issue of shares for acquisition of additional interests in subsidiaries	12	255,865	-	(211,176)	-	-	-	-	44,701	(44,701)	-
Transaction costs attributable to issue of new shares	-	(12,507)	-	-	-	-	-	-	(12,507)	-	(12,507)
Issue of shares by capitalisation of share premium account	3,374	(3,374)	-	-	-	-	-	-	-	-	-
Recognition of equity-settled share-based payments	-	-	-	-	706	-	-	-	706	-	706
Dividend paid to a minority shareholder of a subsidiary	-	-	-	-	-	-	-	-	-	(181)	(181)
Transfer	-	-	-	-	-	4,198	-	(4,198)	-	-	-
At September 30, 2008 (audited)	4,575	601,238	96,269	(211,176)	706	13,333	34,831	105,940	645,716	16,593	662,309
Exchange difference arising on the translation of financial statements recognised directly in equity	-	-	-	-	-	-	1,115	-	1,115	(4)	1,111
Profit (loss) for the period	-	-	-	-	-	-	-	4,784	4,784	(2,334)	2,450
Total recognised income and expenses for the period	-	-	-	-	-	-	1,115	4,784	5,899	(2,338)	3,561
Recognition of equity-settled share-based payments	-	-	-	-	2,580	-	-	-	2,580	-	2,580
Dividend paid to minority shareholders of subsidiaries	-	-	-	-	-	-	-	-	-	(164)	(164)
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	2,161	2,161
Transfer	-	-	-	-	-	491	-	(491)	-	-	-
At March 31, 2009 (unaudited)	4,575	601,238	96,269	(211,176)	3,286	13,824	35,946	110,233	654,195	16,252	670,447

Notes:

(i) The special reserve represents the difference between the nominal value of the share capital issued by the Company and the share premium and the nominal value of the share capital of the subsidiaries comprising the Group prior to the Group reorganisation in 2008.

(ii) The other reserve represents the difference between the fair value of the consideration paid and the relevant share of carrying value of the subsidiaries' net assets acquired from the minority interests.

(iii) According to the relevant laws in the People's Republic of China ("PRC"), wholly foreign-owned enterprises in the PRC are required to transfer at least 10% of their net profit after taxation, as determined under the PRC accounting regulations, to a non-distributable reserve fund until the reserve balance reaches 50% of their registered capital. The transfer to this reserve must be made before the distribution of a dividend to equity owners. The non-distributable reserve fund can be used to offset the previous years' losses, if any. The non-distributable reserve fund is non-distributable other than upon liquidation.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended March 31, 2009

	For the six months ended March 31,	
	2009	2008
	(unaudited)	*(unaudited)*
	US$'000	*US$'000*
Net cash from (used in) operating activities	**30,354**	(109,768)
Net cash used in investing activities		
Purchase of property, plant and equipment	**(37,904)**	(41,767)
Advance to an associate	**(10,836)**	(2,852)
Advances to jointly controlled entities	**(2,253)**	(25,667)
Purchase of available-for-sale investment	**(1,000)**	–
Investments in associates	**(95)**	(342)
Repayments from jointly controlled entities	**2,983**	–
Investments in jointly controlled entities	**–**	(3,229)
Other investing cash flows	**2,702**	9,825
	(46,403)	(64,032)
Net cash (used in) from financing activities		
Repayment of bank borrowings	**(151,306)**	(66,389)
Bank borrowings raised	**141,130**	260,104
Advances from related parties	**–**	39,106
Proceeds from issues of shares and paid up capital	**–**	12,000
Other financing cash flows	**(8,732)**	(8,416)
	(18,908)	236,405
Net (decrease) increase in cash and cash equivalents	**(34,957)**	62,605
Effect of foreign exchange rate changes	**318**	6,404
Cash and cash equivalents brought forward	**183,253**	85,584
Cash and cash equivalents carried forward	**148,614**	154,593
Analysis of the balances of cash and cash equivalents:		
Bank balances and cash	**148,614**	160,472
Bank overdrafts	**–**	(5,879)
	148,614	154,593

INTERIM RESULTS

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

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

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical costs basis except for certain financial instruments, which are measured at fair values.

The accounting policies used in the preparation of the condensed consolidated financial statements are consistent with those followed in the preparation of the annual financial statements of the Company and its subsidiaries (the "Group") for the year ended September 30, 2008. In addition, the Group adopted the following new accounting policies during the period.

Financial instruments

Financial assets

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments. The Group designated the investment in unlisted equity securities issued by a private entity as available-for-sale investment.

For the Group's available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition (see accounting policy on impairment loss on financial assets below).

Impairment on available-for-sale financial assets

For financial assets carried at cost, the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. **PRINCIPAL ACCOUNTING POLICIES** (Continued)

In the current interim period, the Group has applied, for the first time, new amendments and interpretations ("new HKFRSs") issued by the HKICPA, which are effective for the Group's financial year beginning on October 1, 2008. The adoption of the HK(IFRIC) – Int 13 has resulted in changes to the Group's accounting policies in the following areas:

HK(IFRIC) – Int 13 "Customer Loyalty Programmes" affects the accounting of the customer award credits of the Group where it is accounted for as a separately identifiable component of the sales transactions. The fair value of the consideration received or receivable is allocated between the award credits and the other components of the sale. The consideration allocated to the award credits is measured by reference to their fair values (i.e. the amount for which the award credits could be sold separately). Prior to the adoption of HK(IFRIC) – Int 13, the revenue is recognised in full and the customer award credits are expensed when the credits are redeemed. This change in accounting policy has been applied retrospectively.

The adoption of HK(IFRIC) – Int 13 and other new HKFRSs has had no material effect on the results and financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

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

HKFRSs (Amendments)	Improvements to HKFRSs[1]
HKFRSs (Amendments)	Improvements to HKFRSs 2009[2]
HKAS 1 (Revised)	Presentation of Financial Statements[3]
HKAS 23 (Revised)	Borrowing Costs[3]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[4]
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[3]
HKAS 39 (Amendment)	Eligible Hedged Items[4]
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[3]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[3]
HKFRS 3 (Revised)	Business Combinations[4]
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments[3]
HKFRS 8	Operating Segments[3]
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate[3]
HK(IFRIC) – Int 17	Distribution of Non-cash Assets to Owners[4]
HK(IFRIC) – Int 18	Transfer of Assets from Customers[5]

INTERIM RESULTS

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

[1] Effective for annual periods beginning on or after January 1, 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after July 1, 2009

[2] Effective for annual periods beginning on or after January 1, 2009, July 1, 2009 and January 1, 2010, as appropriate

[3] Effective for annual periods beginning on or after January 1, 2009

[4] Effective for annual periods beginning on or after July 1, 2009

[5] Effective transfer on or after July 1, 2009

The application of HKFRS 3 (Revised) may affect the Group's accounting for business combination for which the acquisition date is on or after October 1, 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a Group's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions.

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

3. REVENUE AND SEGMENTAL INFORMATION

Business segment

For management purposes, the Group is currently organised into the following operating divisions: (i) manufacturing and sales of OEM footwear ("Manufacturing Business"); (ii) retailing of sportswear ("Retail Business"); (iii) distribution of licensed products ("Brand Licensee Business"); and (iv) operation and management of sportswear malls ("Property Leasing and Management").

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. REVENUE AND SEGMENTAL INFORMATION (Continued)

Business segment (Continued)

For the six months ended March 31, 2009

	Manufacturing Business US$'000	Retail Business US$'000	Brand Licensee Business US$'000	Property Leasing and Management US$'000	Eliminations US$'000	Consolidated US$'000
REVENUE						
External sales	59,111	429,181	41,452	4,151	–	533,895
Inter-segment sales*	–	–	8,841	–	(8,841)	–
Total	59,111	429,181	50,293	4,151	(8,841)	533,895
RESULTS						
Segment results	6,506	(6,084)	6,471	(6,608)	–	285
Unallocated corporate income						2,045
Unallocated corporate expenses						(8,379)
Fair value changes on derivative financial instruments						69
Interest on bank borrowings wholly repayable within five years						(8,658)
Share of results of associates	–	1,799	–	–	–	1,799
Share of results of jointly controlled entities	–	17,138	–	–	–	17,138
Profit before taxation						4,299
Income tax expense						(1,849)
Profit for the period						2,450

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

INTERIM RESULTS

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. REVENUE AND SEGMENTAL INFORMATION (Continued)

Business segment (Continued)

For the six months ended March 31, 2008

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. INCOME TAX EXPENSE

	For the six months ended March 31,	
	2009	2008
	US$'000	*US$'000*
Taxation attributable to the Company and its subsidiaries:		
Profits Tax:		
Hong Kong Profits Tax *(note i)*	**227**	485
PRC Enterprise Income Tax ("EIT") *(note ii)*	**2,113**	8,073
Overseas income tax *(note iii)*	**474**	1,033
	2,814	9,591
Deferred tax credit	**(965)**	–
	1,849	9,591

notes:

(i) Hong Kong

On June 26, 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced Hong Kong Profits Tax rate from 17.5% to 16.5% effective from the year of assessment 2008/2009. The effect of such decrease has been reflected in measuring the current tax for the six months ended March 31, 2009. The tax rate used is 16.5% (2008: 17.5%) for the six months ended March 31, 2009.

(ii) PRC

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

(a) Pursuant to the relevant laws and regulations in the PRC, certain of the Group's PRC subsidiaries are exempted from PRC income tax for two years starting from their first profit-making year, followed by a 50% reduction in the applicable tax rate for the next three years. These tax holidays and concessions will expire between 2008 and 2010.

(b) Pursuant to《國家稅務總局關於落實西部大開發有關稅收政策具體實施意見的通知》, the relevant state policy and with approval from tax authorities in charge, certain subsidiaries which are located in specified provinces of Western China and engaged in a specific encouraged industry are subject to a preferential tax rate of 15% during the period from 2001 to 2010.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. INCOME TAX EXPENSE (Continued)

notes: (Continued)

(ii) PRC (Continued)

(c) Pursuant to Income Tax Law of the PRC, Yue Sheng (Kunshan) Sports Goods Co. Ltd., a principal subsidiary of the Company operating in an approved economic and technology development zone of the PRC, is entitled to a preferential income tax rate of 15% and is exempted from 3% local income tax, when its annual revenue from manufacturing business exceeds 50% of its total revenue in a fiscal year. Continuance of this preferential rate is subject to annual confirmation from the local tax bureau.

According to the Circular of the State Council on the Implementation of Transitional Preferential Policies for Enterprises Income Tax (Guofa [2007] No. 39), the tax rate of the entity that previously enjoyed the tax preferential treatment as set out in (c) above is to be increased progressively to 25% over a five year period. The tax holidays and concessions from EIT entitled as set out in (a) above continue to be applicable until the end of the five year transitional period under the Law of the PRC on Enterprise Income Tax (the "New Law"). The preferential treatment set out in (b) above continues on the implementation of the New Law.

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

(iii) Overseas

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

5. PROFIT FOR THE PERIOD

	For the six months ended March 31,	
	2009	2008
	US$'000	*US$'000*
Profit for the period has been arrived at after charging:		
Depreciation of property, plant and equipment	**16,577**	8,019
Release of prepaid lease payment	**218**	47
Research and development expenditure	**867**	1,106
Impairment loss recognised on trade receivables	**164**	437
Allowance for inventories	**1,673**	1,583

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. DIVIDEND

No dividend was paid or declared during the period. The directors do not propose the payment of an interim dividend (2008: nil).

7. EARNINGS PER SHARE

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

	For the six months ended March 31,	
	2009	2008
	US$'000	*US$'000*
Earnings:		
Profit for the period attributable to equity holders of the Company for the purposes of basic and diluted earnings per share	**4,784**	34,062

	For the six months ended March 31,	
	2009	2008
Number of shares:		
Number of ordinary shares for the purpose of basic earnings per share	**3,567,559,000**	1,894,268,550
Effect of dilutive potential ordinary shares: Pre-IPO share subscription plan	**124,252,000**	N/A
Number of ordinary shares for the purpose of diluted earnings per share	**3,691,811,000**	N/A

The weighted average number of shares for the period ended March 31, 2008 have been retrospectively adjusted for the effect of the group reorganisation and the capitalisation of share premium in May 2008 as set out in the prospectus of the Company dated May 26, 2008 (the "Prospectus").

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

During the period, the Group acquired property, plant and equipment of approximately US$51,910,000 (for the six months ended March 31, 2008: US$41,767,000).

9. TRADE AND OTHER RECEIVABLES

The Group allows an average credit period ranging from 30 days to 90 days which are agreed with each of its trade customers.

Included in trade and other receivables are trade and bills receivables of US$105,591,000 (September 30, 2008: US$137,664,000) and an aged analysis is as follows:

	At March 31, 2009	At September 30, 2008
	US$'000	*US$'000*
0 – 30 days	**89,045**	111,238
31 – 90 days	**14,470**	25,283
Over 90 days	**2,076**	1,143
	105,591	137,664

10. DERIVATIVE FINANCIAL INSTRUMENTS

	At March 31, 2009	At September 30, 2008
	US$'000	*US$'000*
Derivative financial assets:		
Call options for acquisition of additional interests in subsidiaries, associates and jointly controlled entities	**59,813**	59,744

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10. DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

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

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

The value of each of the Call Options at March 31, 2009 were valued by Savills Valuation and Professional Services Limited, an independent valuer using the Binomial Model. The key inputs into the model include estimated earnings of the Relevant Companies and expected price earning ratio of the Company at the time of exercise of the options and further details are set out below.

	At March 31, 2009	At September 30, 2008
Derivative assets – Call Options:		
Expected price earning ratio – the Company	**6**	5
Expected volatility – Company	**64%**	48%
Expected volatility – the Relevant Companies	**40%**	31%
Risk free rate	**2.30%**	3.53%
Option life	**4.7 years**	5.0 years
Expected dividend yield	**Nil**	Nil

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade and bills payables of US$87,327,000 (September 30, 2008: US$93,016,000) and an aged analysis is as follows:

	At March 31, 2009 US$'000	At September 30, 2008 US$'000
0 – 30 days	**48,005**	82,005
31 – 90 days	**28,311**	9,166
Over 90 days	**11,011**	1,845
	87,327	93,016

12. SHARE CAPITAL AND PAID UP CAPITAL

	Number of shares	Nominal value HK$'000
Ordinary shares of HK$0.01 each		
Authorised:		
At October 1, 2007	–	–
Upon incorporation	10,000,000	100
Increase in authorised share capital	29,990,000,000	299,900
At September 30, 2008 and March 31, 2009	30,000,000,000	300,000
Issued and fully paid:		
Allotted and issued on incorporation	1	–
Issue of shares upon the group reorganisation	99,999	1
Issue of shares on capitalisation of the share premium account	2,631,544,000	26,315
Issue of shares relating to acquisitions	94,978,000	950
Issue of shares under global offering	823,378,000	8,234
Issue on exercise of the over-allotment option	17,559,000	176
At September 30, 2008 and March 31, 2009	3,567,559,000	35,676
	Equivalent to US$'000	4,575

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12. SHARE CAPITAL AND PAID UP CAPITAL (Continued)

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

Because the group reorganisation was only completed on May 23, 2008, the balance of share capital at October 1, 2007 represented the aggregate of the share capital and paid up capital of the subsidiaries comprising the Group held directly by Yue Yuen Industrial (Holdings) Limited ("Yue Yuen"), the ultimate holding company, prior to the group reorganisation.

13. CONTINGENCIES AND COMMITMENTS

The Group had the following contingencies and commitments:

(I) Contingencies

	At March 31, 2009	At September 30, 2008
	US$'000	*US$'000*
Guarantee given to banks in respect of banking facilities granted to		
(i) jointly controlled entities		
– amount guaranteed	**44,028**	44,697
– amount utilised	**33,749**	39,323
(ii) associates		
– amount guaranteed	**1,755**	7,300
– amount utilised	**–**	7,300

INTERIM RESULTS

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. CONTINGENCIES AND COMMITMENTS (Continued)

(II) Commitments

	At March 31, 2009 US$'000	At September 30, 2008 US$'000
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of acquisition of property, plant and equipment	**3,401**	21,529
Other commitments contracted for but not provided in the condensed consolidated financial statements in respect of:		
– investment in associates	**4,850**	4,850
– investment in jointly controlled entities	**1,519**	1,519
	6,369	6,369
	9,770	27,898

In addition, the Group had contingent commitments in respect of further investments in associates and jointly controlled entities. Details are set out in notes 15 and 16 of the 2008 Annual Report.

In January 2009, the Group entered into a sales and purchase agreement for the acquisition of the remaining 70% interest in Farsighted International Limited, not already owned by the Group, for a consideration to be satisfied by cash of US$54,946,000 and issue of 393,584,541 ordinary shares of HK$0.01 each at an issue price of HK$0.925 (the "Farsighted Acquisition"). Certain of the conditions precedent to the completion of the acquisition have not yet been fulfilled, the transaction is therefore not completed as of the date of this report.

The Group also entered into a share subscription agreement with Yue Yuen for the subscription of 421,621,622 ordinary shares of HK$0.01 each in the Company at a subscription price of HK$0.925 per share for a total of consideration of HK$390,000,000 (equivalent to approximately US$50,000,000) (the "Yue Yuen Subscription"). Among others, the Yue Yuen Subscription is conditional on the completion of Farsighted Acquisition.

Details of the Farsighted Acquisition and Yue Yuen Subscription are set out in a circular of the Company dated February 4, 2009.

MANAGEMENT DISCUSSION AND ANALYSIS

INTERIM DIVIDEND

The Directors do not propose any interim dividend for the six months ended March 31, 2009.

FINANCIAL HIGHLIGHTS AND BUSINESS REVIEW

Highlights

When compared to the six months ended March 31, 2008:

- Revenue increased by 27.2% to US$533.9 million
- Gross profit increased by 11.0% to US$175.1 million
- Selling and distribution expenses increased by 37.3% to US $142.1 million
- Profits attributable to equity holder of the Company (excluding fair value changes on derivative financial instruments) decreased by 82.0% to US$4.7 million

Business Overview

The six months ended March 31, 2009 was a period of severe environment full with challenges. The sportswear industry in PRC has experienced the accelerated global financial crisis combined with the post-Olympic slow-down. All of these incidents impacted the general consumer spending sentiment negatively in the PRC which resulted in excess inventory and fierce price competitions. Under such an environment, in order to strengthen core competence of the Group in the long run, we inevitably took managerial decisions such as reorganizing the non-profitable channels or liquidating excess inventory at higher discounts, of which sacrificed the short-term profit margins and resulted in our performance below expectations. However, the total demand of sportswear in China is still growing driven by low penetration rate of sportswear industry, rising disposable income per capita and increasing popularity of sports, among others. We believe the performance at the retail level, being largely sentiment driven, could remain volatile in the near term. However, as a leading sportswear retailer in the PRC, we believe we are well positioned to capture this market opportunity to increase our competence and profitability by strengthening operation efficiency and further optimizing the management of our vast store. Our prompt reactions to the business environment, coupled with the improving economy, will eventually benefit us and create competitive advantage in the near future.

As at March 31, 2009, we together with our regional joint ventures, operated a total of 4,885 directly operated retail outlets across almost every province in the PRC. As at March 31, 2009, we have successfully integrated our POS system with over 90% of the retail outlets directly operated by our regional joint ventures and our financial management systems with 18 out of 19 our regional joint ventures and non-wholly owned subsidiaries.

MANAGEMENT DISCUSSION AND ANALYSIS

For our retail business, we distribute a wide range of sportswear products including footwear, apparel and accessories for some of the leading international and domestic sportswear brands to the end customers through our directly operated retail outlets, and also to retail sub-distributors on a wholesale basis, which in turn sell the products through their retail outlets under our supervision. As at March 31, 2009, the number of retail outlets operated by our retail sub-distributors including the outlet reclassified from the PRC Converse and our regional joint ventures' retail sub-distributors amounted to 2,267 and 2,800 respectively.

As part of our strategy to enrich our retail network, brand portfolio and geographic coverage, we have established regional joint ventures in different regions in the PRC with partners whom we believe are leading retail players in their respective regional markets. Our regional joint ventures operate their retail business under a model similar to ours.

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

In addition, we manufacture for six brands at our Taicang factory, namely Li Ning, ANTA, Umbro, Kappa, 361°, and Diadora, solely for sale to our OEM/ODM customers. The production capacity of our Taicang factory increased from 18 production lines as at September 30, 2008 to 19 production lines as at March 31, 2009.

To further support our retail network expansion and the promotion of our "YY Sports" branding, our property leasing and management business has a dedicated unit that acquires or leases larger scale retail spaces at attractive locations. These are decorated with the full "YY Sports Store" concept which are then sub-divided and leased to us or third party retail distributors.

As we are undergoing the process of integrating our regional joint ventures, we have been closely monitoring their operational and financial performance. For the six months ended March 31, 2009, our regional joint ventures taken in aggregate have performed to our expectations. We have continued to maximize our returns from our regional joint ventures by implementing our IT system and introducing our best management practices to them.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

During the six months ended March 31, 2009, we achieved revenue of US$533.9 million, and profit attributable to equity holders of the Company (excluding fair value changes on derivative financial instruments) of US$4.7 million, representing growth rate and decrease rate of 27.2% and 82.0% from the six months ended March 31, 2008 respectively. Our regional joint ventures performed to our expectation and contributed total net profit of US$18.9 million for the six months ended March 31, 2009, representing growth rate of 58.8% from the six months ended March 31, 2008. Despite the challenging operating environment, we believe the prompt reactions on improving the quality of channels and inventory level instead of compromising for short term profitability will eventually benefit us and create competitive advantage in the near future.

REVENUE

Our combined revenue increased by 27.2% to US$533.9 million for the six months ended March 31, 2009, from US$419.6 million for the six months ended March 31, 2008. This increase was primarily due to the continuing growth of our retail, manufacturing and property leasing businesses.

Retail Business

Revenue from our retail business increased by 53.7% to US$429.2 million for the six months ended March 31, 2009, from US$279.2 million for the six months ended March 31, 2008. This increase was primarily due to the increase in the number of directly operated retail outlets, expansion on our sub-distributor network, and reclassification of US$29.4 million for sales of Converse in the PRC as the exclusive distributor from brand licensee to retail business since January 1, of 2009. Excluding the reclassification of PRC Converse sales, revenue from our retail business would have increased by a lesser rate of 43.2% from US$279.2 million for the six months ended March 31, 2008 to US$399.8 million for the six months ended March 31, 2009.

The number of our directly operated retail outlets increased by 368 from 1,694 as at March 31, 2008 to 2,062 as at March 31, 2009. As for our sub-distributor network, it increased by 1,558 from 709 as at March 31, 2008 to 2,267 as at March 31, 2009. Amongst these increases, 299 and 1,259 were from organic growth and reclassification of outlets for Converse respectively.

Brand Licensee Business

Revenue from our brand licensee business decreased by 54.6% to US$41.5 million for the six months ended March 31, 2009, from US$91.4 million for the six months ended March 31, 2008. This decrease was primarily due to (i) the expiry of our exclusive brand licensee arrangement with Converse in the PRC as of December 31, 2008 and; (ii) the lower than expected sales to the retailer customers. Since January 1, 2009, we have become the exclusive distributor of Converse products in the PRC. The revenue which was previously classified under our brand licensee business has since then been reclassified under our retail business. Had the accounting reclassification not taken place, revenue from our brand licensee business would have decreased by a lesser degree of 22.4 % from US$91.4 million for the six months ended March 31, 2008 to US$70.9 million for the six months ended March 31, 2009.

MANAGEMENT DISCUSSION AND ANALYSIS

Manufacturing Business

Revenue from our manufacturing business increased by 22.9% to US$59.1 million for the six months ended March 31, 2009, from US$48.1 million for the six months ended March 31, 2008. This increase was primarily due to the increase in the production capacity of our Taicang factory as we increased the number of production lines from 15 to 19 during the period. Our Taicang factory has operated close to full capacity for the six months ended March 31, 2009. During the same period, the average sales prices for our manufactured products remained relatively stable compared to the last financial year.

Property Leasing and Management Business

Revenue from our property leasing and management business increased by US$3.3 million to US$4.2 million for the six months ended March 31, 2009, from US$0.9 million for the six months ended March 31, 2008. We established this business in December 2006 to complement the variety of our retail channels.

COST OF SALES

Our cost of sales increased by 36.9% to US$358.8 million for the six months ended March 31, 2009, from US$262.0 million for the six months ended March 31, 2008 which represents higher increase rate than that of the revenue increase. This was primarily due to higher sales discounts to the end customers in order to increase sell-through and reduce excess inventory level. In line with industry practice, from October 1, 2008, we have reclassified the amount of supplier rebate from other income as a deduction item of cost of sales, which was US$10.5 million or 2.9% of cost of sales for the six months ended March 31, 2009.

GROSS PROFIT AND GROSS PROFIT MARGIN

As a result of the factors listed above, our gross profit increased by 11.0% to US$175.1 million for the six months ended March 31, 2009, from US$157.7 million for the six months ended March 31, 2008. Our overall gross profit margin decreased to 32.8% for the six months ended March 31, 2009 as compared to 37.6% for the six months ended March 31, 2008. The decrease in gross profit margin was primarily due to the lower gross profit margin both in our retail business and brand licensee business as a result of higher discount offered to increase product sell-through and the impact on Converse transition to become a sole distributor. The decrease of overall gross profit margin was partially offset by the reclassification of the amount of supplier rebate. The gross profit margins of our retail business and brand licensee business for the six months ended March 31, 2009 were 31.7% and 43.5%, respectively.

OTHER INCOME

Our other income was US$7.3 million for the six months ended March 31, 2009, representing an decrease of US$8.3 million, or 53.2%, from US$15.6 million for the six months ended March 31, 2008. Our other income decreased primarily due to the reclassification of supplier rebate from other income to cost of sales, which was US$10.5 million for the six months ended March 31, 2009.

MANAGEMENT DISCUSSION AND ANALYSIS

SELLING AND DISTRIBUTION EXPENSES

Our selling and distribution expenses were US$142.1 million for the six months ended March 31, 2009, representing an increase of US$38.6 million or 37.3% from US$103.5 million for the six months ended March 31, 2008. The increase was due to: (i) rental and concession expenses, which increased by US$23.5 million or 52.9% to US$67.9 million, primarily due to the increase in number of our retail outlets compared to the last corresponding period; (ii) staff costs, which increased by US$9.2 million or 46.0% to US$29.2 million, primarily due to the increase in number of employees as the result of store expansion and selling bonus due to more frequent promotions activities; (iii) depreciation and amortization, which increased by US$5.4 million to US$12.0 million, mainly as a result of the higher number of retail outlets and store fixture; (iv) shopping mall expense, which increased by US$4.0 million to US$7.6 million, primarily due to more expenses paid or shared with the shopping malls or department stores under promotion and clean-up sales; and (v) general expenses, which increased by US$4.6 million to US$15.2 million, primarily due to higher logistic, utilities and office expenses incurred as a result of our geographical and business expansion.

ADMINISTRATIVE EXPENSES

Our administrative expenses were US$46.4 million for the six months ended March 31, 2009, representing an increase of US$15.2 million or 48.7% from US$31.2 million for the six months ended March 31, 2008. The increase was primarily due to (i) an increase of US$6.3 million, or 40.1% in staff cost, primarily due to the increase in number of employees which resulted in higher salary expense as well as social securities provision and the increase of the Equity-settled share-based payment amortized from the Pre-IPO Share Subscription Plan which was conditionally approved by resolutions of the sole shareholder of the Company on May 14, 2008; (ii) an increase of US$2.9 million, or 29.3% in general expenses, primarily due to increase in freight, travel and utilities expense given to our expanded business and geographic coverage; (iii) an increase of US$1.2 million to US$3.3 million in corporate rental expenses; primarily due to our geographical expansion; (iv) an increase of US$2.6 million in loss on disposal of property, plant and equipment; primarily due to reorganizing the non-profitable channels; and (v) an increase of US$1.3 million to US$2.8 million in depreciation and amortization, primarily due to the increase in the number of office facilities and fixtures as a result of geographical and business expansion.

FAIR VALUE CHANGES ON DERIVATIVE FINANCIAL INSTRUMENTS

Fair value changes on derivative financial instruments were US$0.1 million for the six months ended March 31, 2009, decreasing from US$8.0 million for the six months ended March 31, 2008 primarily due to the change on general business environment. As at March 31, 2009, we had entered into call option agreements with our partners in 15 regional joint ventures and with the minority shareholders of three of our non-wholly owned subsidiaries.

MANAGEMENT DISCUSSION AND ANALYSIS

INTEREST ON BANK BORROWINGS WHOLLY REPAYABLE WITHIN FIVE YEARS

Our finance costs were US$8.7 million for the six months ended March 31, 2009, representing a nearly flat increase of 3.6% from US$8.4 million for the six months ended March 31, 2008, primarily as a result of a combination effect of a decrease in the amount of the average monthly outstanding borrowings for the six months ended March 31, 2009 and the higher floating interest rate charged by the banks.

SHARE OF RESULTS OF ASSOCIATES

Our share of results of associates decreased to US$1.8 million for the six months ended March 31, 2009, from US$2.6 million for the six months ended March 31, 2008. The decrease was primarily due to the lower contribution from two associates that we invested in late 2006 and 2007 which offered higher than expected selling discounts in order to liquidate excessive inventories and hence putting more pressure on gross profit margin.

SHARE OF RESULTS OF JOINTLY CONTROLLED ENTITIES

Our share of results of jointly controlled entities increased to US$17.1 million for the six months ended March 31, 2009, from US$9.3 million for the six months ended March 31, 2008. The increase was primarily due to the increased contribution from our 13 jointly controlled entities invested by us.

PROFIT BEFORE TAXATION

As a result of the factors listed above, our profit before taxation decreased by 91.4% to US$4.3 million for the six months ended March 31, 2009, from US$50.1 million for the six months ended March 31, 2008.

TAXATION

Our taxation expense was US$1.8 million for the six months ended March 31, 2009, representing a decrease of 81.3%, from US$9.6 million for the six months ended March 31, 2008, which was primarily due to a decrease in profit before taxation.

PROFIT FOR THE PERIOD

As a result of the above factors, our profit for the six months ended March 31, 2009 was US$2.5 million, representing a decrease of US$38.0 million, or 93.8%, from US$40.5 million for the six months ended March 31, 2008.

MINORITY INTERESTS

Minority interests were deficit of US$2.3 million for the six months ended March 31, 2009, representing a decrease of US$8.7 million from profit of US$6.4 million for the six months ended March 31, 2008 which was primarily due to increase in the incurred losses generated by non-wholly owned subsidiaries.

MANAGEMENT DISCUSSION AND ANALYSIS

PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF OUR COMPANY

Our profit attributable to equity holders of the Company was US$4.8 million for the six months ended March 31, 2009, representing a decrease of US$29.3 million, or 85.9%, from US$34.1 million for the six months ended March 31, 2008

WORKING CAPITAL EFFICIENCY

The average inventory turnover days for the six months ended March 31, 2009 and financial year ended September 30, 2008 were 128.4 days and 107.7 days respectively. The increase was primarily due to the excess inventory stock-up as a result of the worsening of the general business environment, which we are taking remedial measures to tackle and may require more time before inventory level can return to a reasonable level.

The average trade receivables turnover days for the six months ended March 31, 2009 and financial year ended September 30, 2008 were 41.6 days and 39.0 days respectively. Average trade receivables turnover days remained consistent with the credit terms of 30 to 45 days that the Group granted to its department store counters and retail distributors.

The average trade and bill payables turnover days for the six months ended March 31, 2009 and financial year ended September 30, 2008 were 45.9 days and 51.7 days respectively. Average trade and bill payables turnover days decreased as a result of our proactive strategy to match the cash rebate policy offered by the brand companies in exchange for quicker payment for merchandise.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's cash and cash equivalents as at March 31, 2009 decreased 18.9% to US$148.6 million from US$183.3 million as at September 30, 2008. As at March 31, 2009, the working capital of the Group was US$222.7 million, representing a decrease from US$255.5 million as at September 30, 2008.

As at March 31, 2009, the Group's current ratio was 149.6%, compared to 154.8% as at September 30, 2008 and gearing ratio (total borrowings divided by total assets) was 26.8%, compared to 27.4% as at September 30, 2008.

The Group's total borrowings as at March 31, 2009 decreased by 3.2% to US$302.2 million from US$312.1 million as at September 30, 2008, primarily as a result of repayment on bank borrowing which was matured during the period and not extended.

The maturity profile of bank borrowings spread over around a period of one year, with US$297.6 million payable within one year and US$4.7 million payable in more than one year but not exceed five years.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group's bank borrowings were denominated mainly in Renminbi and cash and cash equivalents were mainly held in Renminbi as well. The amount of borrowings at fixed interest rates amounted to US$11.0 million as at March 31, 2009.

Our borrowing was mainly for short term loan and generally matured within one year and rolled over continuously. Other than the funding of the cash portion of the Group's acquisition of the Farsighted International Limited, which principal asset is the entire equity interest in Dalian Dongzhijie Sports Production Development Company (the details of which were disclosed in the Company's announcement dated January 15, 2009 and circular dated February 4, 2009), which was approved by Yue Yuen by obtaining its written shareholder's approval dated January 13, 2009 and is expected to be satisfied by the proceeds from a subscription of shares in the Company by Yue Yuen, we believe our liquidity requirement will be satisfied using a combination of the proceeds raised from the global offering, the cash provided by the operating activities and short term or long term borrowings for the foreseeable future.

For the six months ended March 31, 2009, net cash inflow from operating activities was US$30.4 million, as compared to net cash outflow of US$109.8 million for the six months ended March 31, 2008. The improvement of net operating cash inflow for the six months ended March 31, 2009 was primarily due to the implementation on the inventory control and channel organization plan which continuously focused on improving the quality of existing channels and enhancing the liquidity of our inventory.

Net cash used in investing activities during the six months ended March 31, 2009 was US$46.4 million, as compared to US$64.0 million for the six months ended March 31, 2008. During the period under review, the Group invested approximately US$37.9 million on purchases of property, plant and equipment, and made advance of US$10.8 million to an associate.

Net cash outflow from financing activities during the six months ended March 31, 2009 was US$18.9 million compared to an inflow of US$236.4 million for the six months ended March 31, 2008. During the period under review, the Group had raised bank borrowings of US$141.1 million and repaid bank borrowings of US$151.3 million.

CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

As at March 31, 2009, the Group had total capital commitments of US$3.4 million, US$4.9 million and US$1.5 million in respect of acquisition of property, plant and equipment, investment in associates and jointly controlled entities respectively.

As at March 31, 2009, the Group had total contingent liabilities of US$33.8 million in respect of guarantee given to banks regarding bank facilities granted to jointly controlled entities.

MANAGEMENT DISCUSSION AND ANALYSIS

FOREIGN EXCHANGE

The Group conducts its businesses primarily in the PRC with most of our transactions denominated and settled in Renminbi. An appreciation or depreciation may cause an inflation and deflation of the US dollar translation in our financial statements as we use US dollars as our reporting currency. As at March 31, 2009, the Group had no significant hedge on the foreign exchange.

Prospects

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

CONTINUED IMPROVEMENT ON THE EXISTING OPERATION EFFICIENCY, INVENTORY MANAGEMENT, QUALITY OF OUR RETAIL NETWORK AND BRAND PORTFOLIO

To focus on improving the operating efficiency, we will control selling and distribution expenses tightly by focusing on evaluating the productivity of each outlet by the measure of sales per square meter and same store sales growth. We will also implement stricter store expansion policy to better control upfront capital expenditures. Besides, we also understand the importance of the inventory and liquidity management hence we will continuously optimize the management of our inventory level and merchandising strategy by placing sensible order volumes and executing maximal sell through.

We have call options arrangements in 15 of our regional joint ventures and 3 of our non-wholly owned subsidiaries that give us the right to acquire the entire remaining interests in these companies and therefore obtain control over these companies. We keep these call option arrangements under regular review and will only exercise those call options to acquire the remaining interests in those leading regional retailers that we believe the decision will bring the best benefit to our shareholders.

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

Human Resources

As at March 31, 2009, the Group had a total of 24,553 employees. We review the performance of our employees periodically and will consider them in annual salary review and promotional appraisals. In order to remain competitive in the labor market, we also conduct research on remuneration packages which are offered by other companies in the same industry. For our senior management, we reward our senior management with annual bonuses based on various performance criteria. As a part of our remuneration policies of our senior management, we have in place two share-based remuneration schemes, the principal terms of which have been set out in the Prospectus. In addition, we also provide other benefits such as mandatory retirement funds, insurance and medical coverage. The Group also offers training programs to its employees based on their personal career development.

Share-Based Remuneration Schemes

A summary of the principal terms and conditions of the Pre-IPO Share Subscription Plan and the Share Option Scheme, which were approved by resolutions of the sole shareholder of the Company on May 14, 2008, is set out in the section headed "Share-Based Remuneration Scheme" in Appendix VIII to the Prospectus. As at March 31, 2009, no option has been granted under the Share Option Scheme. All invitations made and accepted under the Pre-IPO Share Subscription Plan were disclosed in the Prospectus. No further invitations have been made. In addition, as disclosed in the Company's announcement dated June 8, 2009, the deadline for the first year subscription of shares has expired and no subscriptions have been made by the eligible participant of the subscription rights. The board of Directors has decided not to enforce these subscriptions in light of the performance of the share price of the Company and is also considering other share based incentive programs which are more appropriate in the current circumstances.

OTHER INFORMATION

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

As at March 31, 2009, the interests or short positions of the board of directors (the "Directors") and chief executives of the Company in the shares and/or underlying shares and debentures of the Company or any of its associated corporations within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and the chief executives of the Company were deemed or taken to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in the Rules Governing The Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") were as follows:

Long position

	Number of ordinary shares					
Name of Director	Beneficial owners	Held by spouse and/or children under 18	Held by controlled corporation	Held by a discretionary trust	Total	Percentage of the issued share capital of the Company
Ordinary shares of HK$0.01 each of the Company						
Tsai David, Nai Fung	3,037,000	–	–	–	3,037,000	0.09%
Tsai Patty, Pei Chun	4,460,000	–	–	–	4,460,000	0.13%
Ordinary shares to be issued under the pre-IPO subscription plan						
Lee Chung Wen*	18,638,000	–	–	–	18,638,000	0.52%
Huang Chun Hua*	12,425,000	–	–	–	12,425,000	0.35%
Chang Karen Yi-Fen*	14,910,000	–	–	–	14,910,000	0.42%
Lu Ning*	15,975,000	–	–	–	15,975,000	0.45%

* The Directors had accepted invitations to subscribe for the shares in the Company as indicated pursuant to the Company's pre-IPO share subscription plan. They are interested in these shares within the meaning of Part XV of the SFO.

OTHER INFORMATION

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

The Company recognizes the importance of attracting talents and retaining employees by providing them with incentives and rewards through granting share-based incentives. The Company believes that this will align their interests with that of the Company. In this connection, the Company has set up two share-based remuneration schemes, namely share option scheme and pre-IPO share subscription plan, the details of which are stipulated as follows:

1. Pre-IPO Subscription Plan

On May 14, 2008, the Company adopted a pre-IPO subscription plan (the "Plan"), which is an one-off and close-end scheme under which eligible directors and employees as stipulated below were invited, and they accepted, to subscribe for certain number of shares in the Company (the "Plan Shares") at a subscription price which is 30% below the IPO price of the Company's shares. The subscription price is determined at HK$2.14 per share.

Name	Invitation date	No. of Plan Shares (5 years plan) (note i)	No. of Plan Shares (5 years plan) deducted (note iii)	No. of Plan Shares (10 years plan) (note ii)	No. of Plan Shares (10 years plan) deducted (note iii)	Total
Directors						
Chang Karen Yi-Fen	May 23, 2008	8,520,000	0	6,390,000	0	14,910,000
Huang Chun Hua	May 23, 2008	7,100,000	0	5,325,000	0	12,425,000
Lee Chung Wen	May 23, 2008	10,650,000	0	7,988,000	0	18,638,000
Lu Ning	May 23, 2008	10,650,000	0	5,325,000	0	15,975,000
		36,920,000	0	25,028,000	0	61,948,000
Employees	May 23, 2008	34,081,000	7,633,000	28,223,000	7,455,000	47,216,000
		71,001,000	7,633,000	53,251,000	7,455,000	109,164,000

Notes:

(i) 20% of the Plan Shares shall be subscribed after each anniversary of the date of invitation.

(ii) 10% of the Plan Shares shall be subscribed after each anniversary of the date of invitation.

(iii) The numbers of Plan Shares deducted was due to the resignations of two employees during the period.

As at March 31, 2009, no shares have been subscribed under the Plan.

OTHER INFORMATION

2. Share Option Scheme

On May 14, 2008, in addition to the Plan, the Company also adopted a share option scheme (the "Scheme") under which the Board may at its discretion grant any eligible participant share options, as it may determine appropriate. The Scheme is valid and effective for a period of ten years commencing on May 14, 2008, after which no further options may be offered or granted. No share options were granted under the Scheme since its adoption.

Save as disclosed above, at no time during the period from October 1, 2008 to March 31, 2009 was the Company or any of its holding companies, fellow subsidiaries or subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

So far as is known to any Director or chief executive of the Company, as at March 31, 2009, shareholders (other than Directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which were required to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO were as follows:

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")	b	Beneficial interest	1,986,723,000	55.69%
Wealthplus Holdings Limited ("Wealthplus")	b, c, g	Interest of a controlled corporation	2,408,344,622	67.50%
Yue Yuen Industrial (Holdings) Limited ("Yue Yuen")	b	Beneficial interest	421,621,622	11.81%
Yue Yuen	b, c	Interest of a controlled corporation	1,986,723,000	55.69%

OTHER INFORMATION

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
Pou Chen Corporation ("PCC")	b, c, g	Interest of a controlled corporation	2,408,344,622	67.50%
Jollyard Investments Limited ("Jollyard")	d	Beneficial interest	216,945,000	6.08%
Sitori Trading Limited ("Sitori Trading")	d	Interest of a controlled corporation	216,945,000	6.08%
Shih Ching-I	d	Interest of a controlled corporation	216,945,000	6.08%
Sports Group Limited ("Sports Group")	f	Beneficial interest	248,196,000	6.96%
Huang Tsung Jen	f	Interest of a controlled corporation	248,196,000	6.96%
Chiang Lin-Lin	e	Spousal interest	248,196,000	6.96%
Managecorp Limited	f	Trustee	248,196,000	6.96%
Chan Chou-Hou	h	Spousal interest	393,584,541	11.03%
Noriko Yamaguchi	i	Interests of a controlled corporation	393,584,541	11.03%
Megabillion Investment Limited	i	Interests of a controlled corporation	393,584,541	11.03%
Long Rich Management Limited	i	Interests of a controlled corporation	393,584,541	11.03%
Proudview Holdings Limited	i	Beneficial interest	393,584,541	11.03%

OTHER INFORMATION

Notes:

(a) All the Shares are long positions.

(b) 1,986,723,000 Shares are held by Major Focus Management Limited, a wholly-owned subsidiary of Yue Yuen.

(c) Pou Chen Corporation 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 Holdings Limited, 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 Holdings Limited is wholly-owned by Pou Chen Corporation and is interested in 46.15% of the issued share capital of Yue Yuen. Mr. Tsai David, Nai Fung and Miss Tsai Patty, Pei Chun, who are Directors are also directors of Wealthplus Holdings Limited. Mr. Tsai David, Nai Fung who is a Director is also a director of Pou Chen Corporation. Mr. Tsai David, Nai Fung and Miss Tsai Patty, Pei Chun who are Directors are also directors of Yue Yuen.

(d) These shares are held by Jollyard Investments Limited. Jollyard Investments Limited is wholly-owned by Sitori Trading Limited, which is in turn wholly-owned by Ms. Shih Ching-I.

(e) These shares are held by Sports Group Limited which is wholly-owned by The Huang Family Trust of which Mr. Huang Tsung Jen is the founder. Ms. Chiang Lin-Lin is a spouse of Mr. Huang Tsung Jen and is therefore deemed to be interested in these Shares as Mr. Huang Tsung Jen is also deemed to be interested in more than 5% of the issued share capital of the Company through Sports Group Limited.

(f) The shares are held by Sports Group Limited, which is wholly-owned by The Huang Family Trust, a discretionary trust of which trustee is Managecorp Limited. The Huang Family Trust was set up by Mr. Huang Tsung Jen for the benefit of his family members. Mr. Huang Tsung Jen as the founder of The Huang Family Trust is deemed to be interested in such shares under the SFO. Mr. Huang Tsung Jen is a director of Sports Group Limited.

(g) Yue Yuen is regarded as having an interest in 421,621,622 Shares under the SFO by entering into the Yue Yuen Subscription Agreement. Pou Chen Corporation 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 Holdings Limited, 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.

(h) Mr. Chan Chou-Hou is a spouse of Ms. Noriko Yamaguchi and is therefore deemed to be interested in these Shares under the SFO.

OTHER INFORMATION

(i) Proudview Holdings Limited is regarded as having an interest in these Shares by entering into the Farsighted Acquisition sales and purchase agreement under the SFO. Noriko Yamaguchi is deemed to be interested in these Shares under the SFO by virtue of her interests in more than one third of the voting shares in Megabillion Investment Limited, 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 Long Rich Management Limited, 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 Proudview Holdings Limited.

Save as disclosed above, as at March 31, 2009, the Directors were not aware of any other person (other than Directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were required, pursuant to Section 336 of the SFO, to be entered into the register referred to therein.

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

Ms. Chang Karen Yi-Fen, the executive Director of the Company, has been appointed as directors of some of the subsidiaries of the Company incorporated in Hong Kong and the British Virgin Islands as follows:

1. A-Grade Holdings Limited
2. Billion Stand Investments Limited
3. Brightup Group Limited
4. Dedicated Group Limited
5. Dragonlight Group Limited
6. Gorgeous Time Limited
7. Great Sea Holdings Limited
8. Huge Faith Investments Limited
9. Large Forever International Limited
10. Profit Concept Group Limited
11. Richwin Management Limited
12. Seapark Investments Limited
13. Selangor Gold Limited
14. Success State Investments Limited
15. Thousand Sum Investments Limited
16. Treasure Chain International Limited
17. Wealthy Chain Investments Limited
18. Wing Success Investments Limited

OTHER INFORMATION

Ms. Kuo, Li-Lien, the non-executive Director of the Company, has been appointed as directors of some of the subsidiaries of the Company incorporated in Hong Kong and the British Virgin Islands as follows:

1. A-Grade Holdings Limited
2. Brightup Group Limited
3. Dedicated Group Limited
4. Favour Mark Holdings Limited
5. Great Sea Holdings Limited
6. Hillside Investments Limited
7. Nice Palace Investments Limited
8. Nice Well Investments Limited
9. Rainbow Faith Investments Limited
10. Richwin Management Limited
11. Selangor Gold Limited
12. Treasure Chain International Limited
13. Wellmax Business Group Limited
14. Yue Ming International Limited
15. YY Sports Holdings Limited

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended March 31, 2009, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company.

REVIEW OF ACCOUNTS

Disclosure of financial information in this report complies with Appendix 16 of the Listing Rules. The audit committee of the Company has reviewed the accounting principles and practices adopted by the Group and in the course have discussed with the management, the internal controls and financial reporting matters related to the preparation of the unaudited condensed consolidated financial statements for the six months ended March 31, 2009.

The external auditor has reviewed the interim financial information for the six months ended March 31, 2009 in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

CORPORATE GOVERNANCE

The Company has applied the principles of and has complied with all code provisions set out in the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules.

OTHER INFORMATION

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. All Directors have confirmed, following specific enquiry by the Company that they have complied with the required standard set out in the Model Code throughout the six months ended March 31, 2009.

ACKNOWLEDGEMENT

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

DIRECTORS

As at the date of this report, Mr. Tsai David, Nai Fung (chairman and non-executive Director), Mr. Lee Chung Wen, Mr. Huang Chun Hua, Mr. Lu Ning and Ms. Chang Karen Yi-Fen are the executive Directors; Ms. Tsai Patty, Pei Chun and Ms. Kuo, Li-Lien are the non-executive Directors; and Mr. Chen Huan-Chung, Mr. Hu Sheng-Yih, Mr. Mak Kin Kwong and Mr. Cheng Ming Fun Paul are the independent non-executive Directors.

By Order of the Board
Tsai David, Nai Fung
Chairman

Hong Kong, June 19, 2009

Website: www.pousheng.com