

March 12, 2018

Dear Sirs,

**(1) PROPOSED PRIVATIZATION OF POU SHENG INTERNATIONAL (HOLDINGS) LIMITED
BY POU CHEN CORPORATION BY WAY OF A SCHEME OF ARRANGEMENT
(UNDER SECTION 99 OF THE COMPANIES ACT 1981 OF BERMUDA)
AND
(2) PROPOSED WITHDRAWAL OF LISTING OF POU SHENG INTERNATIONAL
(HOLDINGS) LIMITED**

INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee in relation to the Proposal and the Option Offer. Details of the Proposal and the Option Offer are set out in the Scheme Document of which this letter forms part. Expressions used in this letter shall have the same meanings as defined in the Scheme Document, unless the context requires otherwise.

On January 21, 2018, the respective boards of directors of Pou Chen, Yue Yuen and Pou Sheng jointly announced that on the same date, Pou Chen requested the Pou Sheng Board to put forward the Proposal to the Scheme Shareholders for the privatization of Pou Sheng by way of a scheme of arrangement under Section 99 of the Bermuda Companies Act. If the Proposal is approved and implemented, the Scheme Shareholders will receive HK\$2.03 in cash per Scheme Share; the listing of the Pou Sheng Shares on the Stock Exchange will be withdrawn; and Pou Sheng will become a direct or indirect wholly-owned subsidiary of Pou Chen. In addition, conditional upon the Scheme becoming effective, Pou Chen will make (or procure to be made on its behalf) an offer to the Pou Sheng Optionholders to cancel all Pou Sheng Options under the Option Offer.

The Pou Sheng Board has established the Independent Board Committee, comprising all non-executive directors and independent non-executive directors of Pou Sheng who are not interested in the Proposal, namely, Mr. Li I-nan, Mr. Chen, Huan-Chung, Mr. Hsieh, Wuci-Jung and Mr. Shan Xue, to make a recommendation to the Scheme Shareholders as to whether the terms of the Proposal and the Scheme are, or are not, fair and reasonable and as to voting and to the Pou Sheng Optionholders as to its views on acceptance of the Option Offer. Pursuant to Rule 2.1 of the Takeovers Code, the Independent Board Committee has approved the appointment of Anglo Chinese as the Independent Financial Adviser to the Independent Board Committee in this regard.

Anglo Chinese is not associated or connected with Pou Sheng, Pou Chen, Yue Yuen, their respective controlling shareholders or any party acting, or presumed to be acting, in concert with any of them and, accordingly, is considered eligible to give independent advice on the Proposal and the Option Offer. Besides normal professional fees payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from Pou Sheng, Pou Chen, Yue Yuen, their respective controlling shareholders or any party acting, or presumed to be acting, in concert with any of them.

In formulating our recommendation, we have relied on the information and facts supplied, and the opinions expressed, by Pou Sheng. We have also assumed that the information and representations contained or referred to in the Scheme Document were true and accurate at the time they were made and continued to be so at the Latest Practicable Date. We have reviewed the published information on Pou Sheng and the trading performance of the Pou Sheng Shares on the Stock Exchange. We have sought and received confirmation from the Pou Sheng Directors that no material facts have been omitted from the information supplied and opinions expressed by them. Pou Sheng will notify the Pou Sheng Shareholders of any material changes during the offer period (as defined under the Takeovers Code) as soon as possible in accordance with Rule 9.1 of the Takeovers Code. Disinterested Scheme Shareholders will also be notified of any material changes to such information provided and our opinion as soon as practicable throughout the offer period (as defined under the Takeovers Code). We consider that we have reviewed sufficient information to reach an informed view, to justify reliance on the accuracy of the information contained in the Scheme Document and to provide a reasonable basis for our opinion and advice. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by Pou Sheng. We have not, however, conducted an independent investigation into the business and affairs of the Pou Sheng Group, Pou Chen Group or the associates of either of them, nor have we carried out any independent verification of the information supplied.

We have also not considered the tax, regulatory and other legal implications on the Scheme Shareholders and the Pou Sheng Optionholders, in respect of the Proposal and the Option Offer, since these depend on their individual circumstances. In particular, the Scheme Shareholders and the Pou Sheng Optionholders, who are overseas residents or subject to overseas taxation or Hong Kong taxation on securities dealings should consider their own tax position and, if in any doubt, should consult their own professional advisers.

PRINCIPAL TERMS OF THE PROPOSAL AND THE OPTION OFFER

The detailed terms of the Proposal and the Option Offer are set out in the Explanatory Statement in Part VII of this Scheme Document. The relevant extracts are reproduced below for your reference.

The Scheme

Under the Proposal, if approved and implemented, the Scheme will result in Pou Sheng being privatized and the Pou Sheng Shares being withdrawn from listing on the Stock Exchange. If effected, under the Scheme (i) all Scheme Shares held by the Scheme Shareholders will be cancelled in exchange for the payment of the Cancellation Price of HK\$2.03 for each Scheme Share; (ii) Pou Sheng will issue one Pou Sheng Share at par to Pou Chen or its designated wholly-owned subsidiary, and the issued share capital of Pou Sheng will be reduced by cancelling and extinguishing all the Scheme Shares. Immediately after such reduction, the issued share capital of Pou Sheng will be restored to its former amount by the issuance at par to Pou Chen and/or its designated wholly-owned subsidiary(ies), credited as fully paid, of the same number of Pou Sheng Shares as the number of Scheme Shares cancelled. The reserve created in the books of account of Pou Sheng as a result of the cancellation of the Scheme Shares will be applied in paying up in full at par the new Pou Sheng Shares so issued, credited as fully paid, to Pou Chen and/or its designated wholly-owned subsidiary(ies); and (iii) Pou Sheng will become a direct or indirect wholly-owned subsidiary of Pou Chen.

If any dividend is declared by Pou Sheng on or before the Effective Date with a record date for entitlement to any such dividend which is on or before the Effective Date, Pou Sheng Shareholders whose names appear in the register of members of Pou Sheng as at the record date for entitlement to any such dividend will be entitled to receive such dividend.

The Proposal is, and the Scheme will become effective and binding on Pou Sheng and all Pou Sheng Shareholders, subject to the fulfilment or waiver (as applicable) of all the Conditions on or before May 30, 2018 (or such later date as Pou Chen and Pou Sheng may agree, or to the extent applicable, as the Bermuda Court may direct), failing which the Proposal and the Scheme will lapse. Details of the Conditions are set out in section headed “3. CONDITIONS TO THE PROPOSAL AND THE SCHEME” in the Explanatory Statement in Part VII of this Scheme Document.

The Cancellation Consideration of HK\$2.03 will not be increased and Pou Chen does not reserve the right to do so, and accordingly, this represents the final price for each Scheme Share.

The Option Offer

Under the Option Offer, all Pou Sheng Options, vested or unvested, will be cancelled in exchange for the payment of the Option Cancellation Price for each Pou Sheng Option which is tendered in acceptance of the Option Offer, being (i) where the exercise price of the Pou Sheng Option is below the Cancellation Price, an amount equal to the Cancellation Price minus the exercise price of such Pou Sheng Option; or (ii) where the exercise price of the Pou Sheng Option is equal to or above the Cancellation Price, a nominal amount of HK\$0.00001.

The following table sets out the exercise price of all the outstanding Pou Sheng Options and their respective Option Cancellation Price under the Option Offer:

Date of grant	Exercise price (HK\$)	Exercisable period	Option Cancellation Price (HK\$)	Number of Pou Sheng Shares into which Pou Sheng Options (vested and unvested) are exercisable
January 20, 2011	1.230	Until January 19, 2019	0.800	20,839,000
March 7, 2012	1.050	Until March 6, 2020	0.980	375,000
November 14, 2016	2.494	Until September 1, 2019	0.00001	1,166,320
		From September 1, 2018 to September 1, 2020	0.00001	1,166,320
		From September 1, 2019 to September 1, 2021	0.00001	1,166,320
		From September 1, 2020 to September 1, 2022	0.00001	2,332,640
		From September 1, 2021 to September 1, 2023	0.00001	<u>5,831,590</u>
			Total	<u><u>32,877,190</u></u>

PRINCIPAL FACTORS AND REASONS CONSIDERED

We have considered the following factors in arriving at our recommendations regarding the terms of the Proposal and the Option Offer:

1. Reasons and benefits of the Proposal

The reasons for and the benefits of the Proposal stated in the Explanatory Statement in Part VII of this Scheme Document can be summarized as follows:

- (a) The sporting goods industry is experiencing unprecedented changes and challenges, in particular (i) the rise of online shopping and the integration and collaboration of online and offline operators as a result of the change in consumers' expectations on good shopping experiences; and (ii) increased market competition as demonstrated by market players' aggressive and frequent promotions and experiments with new store formats;

- (b) Faced with the aforementioned changes and challenges, the Pou Sheng Group has been exploring and investing heavily in a variety of initiatives to adapt to the shifting market dynamics, such as (i) expanding omni-channel capabilities; (ii) planning organized promotional activities; (iii) enhancing store offering; and (iv) providing sports-related content and services. It is expected that significant investments are required to implement these initiatives and enhance Pou Sheng's competitiveness which may involve execution risks that could adversely impact on its performance and cause price volatility on Pou Sheng Shares in the near term;
- (c) It is believed that Pou Sheng will (i) be more flexible in transforming its operations in a timely fashion; (ii) enjoy more advantageous financing and coordinated internal treasury management under Pou Chen; and (iii) benefit from a streamlined corporate and management structure and an enhanced sharing of expertise, if it becomes a wholly-owned subsidiary of Pou Chen and therefore will be in a better position to continue performing the aforesaid initiatives;
- (d) The current valuation level and low liquidity in the trading of Pou Sheng Shares indicate that Pou Sheng's listing status is ineffective in providing a sufficient source of funding for Pou Sheng's business and growth; and
- (e) The Pou Chen Board considers that the Proposal and the Cancellation Price represent an opportunity for public Pou Sheng Shareholders to monetize their investment amid the aforesaid industry headwinds, execution risks, absence of near-term catalysts and limited liquidity.

We have discussed with the management of Pou Sheng and concurred with the Pou Sheng Board (other than the Independent Board Committee) that Pou Sheng will be in a better position to pursue the initiatives as mentioned in paragraph (b) above if it becomes a wholly-owned subsidiary of Pou Chen as follows:

- (i) In short term, Pou Sheng will be able to pursue these initiatives without any share price pressure. Since such initiatives may not be effective in short or medium term and even exert burden on costs of operation of Pou Sheng and consequently adversely affect its financial performance, if Pou Sheng remains a listed company, such initiatives may have negative impact on the share price of Pou Sheng; and
- (ii) In long term, Pou Sheng can pursue these initiatives, as well as obtain the sufficient funding for these initiatives, in a more flexible and efficient manner. If Pou Sheng remains a listed company, such initiatives may constitute notifiable transactions and connected transactions of Pou Sheng, which are subject to the reporting and shareholders' approval requirements, as the case may be, under the Listing Rules, and generally take time and involve expenses.

In respect of the point mentioned in paragraph (d) above, we have been advised by the management of Pou Sheng and concurred with the view of the Pou Sheng Board (other than the Independent Board Committee) that the low level of valuation and liquidity in the trading of Pou Sheng Shares (for details of the valuation level and liquidity of Pou Sheng Share, please refer to subsections below headed “5. Pou Sheng Share price and trading volume” and “6. Cancellation Price analysis – (i) Comparable company analysis”) reflects a genuine lack of market appetite for Pou Sheng Shares, which implies equity financing a more “dilutive” practice given raising the same amount of fund at a lower share price, a larger scale of new shares issuance would be required. Also, a deficiency in demand would increase the uncertainty of equity financing, such as the determination of the issue price to attract market participation, the time required to seek adequate investors to subscribe new Pou Sheng Shares in the case of a placing and the likelihood of finding an underwriter in the case of a rights issue or an open offer.

In addition, we noted that Pou Sheng has not carried out any fundraising activities from the equity market during the last five years. The last equity fund raising conducted by Pou Sheng was a one-for-four rights issue announced on September 21, 2012, with a result of an under-subscription of 24.90% of the total number of rights shares available (such under-subscribed shares were fully underwritten by Yue Yuen). In view of such lack of equity market utilisation, we are of the opinion that the costs and efforts required to maintain Pou Sheng’s listing status may not be economically justified.

2. Information on the Pou Sheng Group

Pou Sheng is a company incorporated in Bermuda with limited liability, the shares of which have been listed on the Main Board of the Stock Exchange since 2008 (stock code: 3813.HK). As at the Latest Practicable Date, Pou Sheng is indirectly held as to approximately 62.38% by Yue Yuen.

The Pou Sheng Group is principally engaged in the retailing of sportswear and distribution of licensed products. According to its 2017 interim report, the Pou Sheng Group’s nationwide retail network consisted of 5,464 directly operated stores and 3,036 sub-distributor store as at June 30, 2017. The Pou Sheng Group has continued to pursue opportunities with international leisure and fashionable brands and as at June 30, 2017, it cooperated with brands Rockport, GEOX, Carter’s, Levi’s footwear, PONY, etc.

3. Financial performance of the Pou Sheng Group

(i) Historical financial performance of the Pou Sheng Group

The following table summarises the audited financial results of the Pou Sheng Group for each of the three years ended December 31, 2016 and each of the two six months ended June 30, 2017 (“Financial Review Period”):

	For the year ended December 31,			For the six months ended June 30,	
	2014 (“FY2014”) RMB’000 (restated) (Note)	2015 (“FY2015”) RMB’000 (restated)	2016 (“FY2016”) RMB’000	2016 (“1H2016”) RMB’000 (restated and unaudited)	2017 (“1H2017”) RMB’000 (unaudited)
Revenue	12,209,056	14,465,564	16,236,384	8,312,889	9,515,092
Cost of sales	<u>(8,630,295)</u>	<u>(9,647,897)</u>	<u>(10,467,944)</u>	<u>(5,354,052)</u>	<u>(6,223,056)</u>
Gross profit	3,578,761	4,817,667	5,768,440	2,958,837	3,292,036
Other operating income and gains (losses)	146,368	121,002	228,178	108,163	134,160
Selling and distribution expenses	<u>(3,052,185)</u>	<u>(3,724,350)</u>	<u>(4,415,748)</u>	<u>(2,170,429)</u>	<u>(2,591,057)</u>
Administrative and other expenses	<u>(466,096)</u>	<u>(615,360)</u>	<u>(656,714)</u>	<u>(326,001)</u>	<u>(329,386)</u>
Operating profit	206,848	598,959	924,156	570,570	505,753
Finance costs – net	<u>(39,248)</u>	<u>(36,532)</u>	<u>(50,514)</u>	<u>(22,340)</u>	<u>(49,093)</u>
Share of results of an associate	<u>(2,626)</u>	<u>(2,222)</u>	<u>(7,225)</u>	<u>(7,225)</u>	–
Share of results of joint ventures	<u>(23,917)</u>	<u>(6,157)</u>	<u>(4,691)</u>	892	<u>(2,472)</u>
Other gains (losses)	<u>(15,485)</u>	<u>(21,590)</u>	<u>(29,803)</u>	<u>14,923</u>	<u>(4,363)</u>
Profit before taxation	125,572	532,458	831,923	556,820	449,825
Income tax expense	<u>(85,575)</u>	<u>(149,323)</u>	<u>(262,312)</u>	<u>(174,091)</u>	<u>(138,285)</u>
Profit for the year	<u>39,997</u>	<u>383,135</u>	<u>569,611</u>	<u>382,729</u>	<u>311,540</u>

Sources: the annual (“Annual Reports”) and interim reports (“Interim Reports”) of the Pou Sheng

Note: Starting from 1 January 2016, the Pou Sheng Group changed its presentation currency from US\$ to RMB. Figures in the above consolidated income statement for FY2014 have been converted from US\$ to RMB at the exchange rate of US\$1 to RMB6.1644 for reference only.

Revenue

Sales of sportswear and footwear products has been Pou Sheng Group's main source of income during the Financial Review Period. From FY2014 to FY2016, Pou Sheng Group's revenue increased by approximately RMB4.0 billion, representing a compound annual growth rate ("CAGR") of around 15.3%, mainly due to the continuous growth in the same store sales coupled with revenue from newly opened stores.

Pou Sheng's revenue for 1H2017 exceeded that for 1H2016 by approximately RMB1.2 billion, or approximately 14.5%, mainly because of the growth in overall store sales and contributions from newly opened stores.

Gross profit and gross profit margin

Pou Sheng Group's gross profit increased from approximately RMB3.6 billion for FY2014 to approximately RMB5.8 billion, representing a CAGR of some 27.0%, along with a gross profit margin improvement from approximately 29.3% to approximately 35.5%. The main reasons for the growth in amount and improvement in margin were the increase in sales revenue and lowering of discounts granted on the retail sales prices.

For 1H2017, Pou Sheng Group's gross profit grew by approximately RMB0.3 billion, or some 11.3%, comparing to that for 1H2016. However, its gross profit margin for the same period declined slightly from approximately 35.6% to approximately 34.6%, attributable to the increase in allowance for inventories as the clearance of age-long inventories was slower than expected.

Selling and distribution expenses

Pou Sheng Group's selling and distribution expenses increased from approximately RMB3.1 billion for FY2014 to approximately RMB4.4 billion for FY2016, representing a CAGR of some 20.3%, outpacing the CAGR of revenue for the same period. The main reasons for the growth were the opening of new stores and additions of staff.

For 1H2017, Pou Sheng Group's selling and distribution expenses grew by approximately RMB0.4 billion, or some 19.4%, comparing to that for 1H2016. Again, such rate of increase outpaced that of the revenue for the same period, which was mainly attributable to store expansion and optimization, store renovations and upgrades, as well as the training of sales staff.

Operating profit and operating profit margin

Pou Sheng Group's operating profit increased from approximately RMB206.8 million for FY2014 to approximately RMB924.2 million, representing a CAGR of some 111.4%, along with an operating profit margin improvement from approximately 1.7% to approximately 5.7%.

Due to the aforementioned reasons, for 1H2017, Pou Sheng Group's operating profit decreased by approximately RMB64.8 million, or some 11.4%, comparing to that for 1H2016. Also, its operating profit margin for the same period declined from approximately 6.9% to approximately 5.3%.

Net profit and net profit margin

Pou Sheng Group's net profit increased from approximately RMB40.0 million for FY2014 to approximately RMB569.6 million, representing a CAGR of some 277.4%, along with a net profit margin improvement from approximately 0.3% to approximately 3.5%.

Due to the aforementioned reasons, for 1H2017, Pou Sheng Group's net profit decreased by approximately RMB71.2 million, or some 18.6%, comparing to that for 1H2016. Also, its net profit margin for the same period declined from approximately 4.6% to approximately 3.3%.

(ii) *Historical financial position of the Pou Sheng Group*

	As at December 31,		As at June 30,	
	2014 ("YE2014") RMB'000	2015 ("YE2015") RMB'000 (restated)	2016 ("YE2016") RMB'000 (unaudited)	2017 ("HYE2017") RMB'000 (unaudited)
NON-CURRENT ASSETS				
Property, plant and equipment	586,876	707,427	902,732	990,885
Deposit paid for acquisition of property, plant and equipment	11,655	9,006	55,224	73,429
Prepaid lease payments	144,371	140,327	143,621	143,000
Rental deposits and prepayments	108,656	113,813	127,335	133,678
Intangible assets	704,924	657,401	614,678	565,148
Goodwill	536,210	545,748	532,450	532,794
Interest in an associate	12,633	10,411	-	-
Interests in joint ventures	58,188	67,061	51,791	49,319
Loans to joint ventures	107,203	47,500	17,500	17,500
Long-term loan receivable	50,000	-	-	-
Available-for-sale investments	-	1,999	2,156	2,228
Deferred tax assets	5,151	428	-	-
	<u>2,325,867</u>	<u>2,301,121</u>	<u>2,447,487</u>	<u>2,507,981</u>

	As at December 31,		As at June 30,	
	2014 ("YE2014") RMB'000	2015 ("YE2015") RMB'000 (restated)	2016 ("YE2016") RMB'000 (unaudited)	2017 ("HYE2017") RMB'000 (unaudited)
CURRENT ASSETS				
Inventories	3,712,064	3,910,362	4,400,649	4,511,060
Trade and other receivables	1,965,674	2,104,757	2,412,346	2,756,789
Taxation recoverable	2,038	7,248	1,526	2
Pledged bank deposits	–	5,997	–	–
Bank balances and cash	271,907	297,182	482,635	448,852
Assets classified as held for sale	–	–	299,133	10,000
	<u>5,951,683</u>	<u>6,325,546</u>	<u>7,596,289</u>	<u>7,726,703</u>
CURRENT LIABILITIES				
Trade and other payables	1,283,328	2,069,832	2,006,378	1,467,555
Taxation payable	12,230	42,582	64,664	110,600
Bank borrowings	1,221,722	368,682	1,375,826	2,171,627
Consideration payable for acquisition of business	–	74,301	60,439	–
Bank overdrafts	–	100,230	–	–
Liabilities associated with assets classified as held for sale	–	–	230,309	–
	<u>2,517,280</u>	<u>2,655,627</u>	<u>3,737,616</u>	<u>3,749,782</u>
NON-CURRENT LIABILITIES				
Consideration payable for acquisition of business	102,169	–	–	–
Deferred tax liabilities	195,108	183,310	172,649	160,281
	<u>297,277</u>	<u>183,310</u>	<u>172,649</u>	<u>160,281</u>
NET ASSETS	<u>5,462,993</u>	<u>5,787,730</u>	<u>6,133,511</u>	<u>6,324,621</u>
CAPITAL AND RESERVES				
Share capital	46,873	46,877	46,523	46,525
Reserves	5,325,611	5,695,497	6,057,008	6,235,035
Equity attributable to owners of the Company	5,372,484	5,742,374	6,103,531	6,281,560
Non-controlling interests	90,509	45,356	29,980	43,061
Total equity	<u>5,462,993</u>	<u>5,787,730</u>	<u>6,133,511</u>	<u>6,324,621</u>

Sources: the annual and interim reports of the Pou Sheng

Property, plant and equipment

The Pou Sheng Group's property, plant and equipment consisted mainly of (i) factory buildings and warehouses; (ii) leasehold improvements; (iii) furniture, fixture and equipment; and (iv) office and shopping mall buildings. The net value of Pou Sheng Group's property, plant and equipment increased by more than RMB400 million over the Financial Review Period from approximately RMB586.9 million as at YE2014 to approximately RMB990.9 million as at HYE2017, mainly attributable to the increase in capital expenditure on purchase of furniture, fixtures and equipment and leasehold improvements due to the openings of new stores.

Intangible assets and goodwill

The intangible assets of the Pou Sheng Group mainly represent brand names, non-compete agreements, customer relationship, licensing agreements and goodwill which were mainly a result of acquisition of certain companies before the start of the Financial Review Period. The intangible assets and goodwill decreased from approximately RMB704.9 million and RMB536.2 million respectively as at YE2014 to approximately RMB565.1 and RMB532.8 million respectively as at HYE2017.

Inventories

Inventories of the Pou Sheng Group for the Financial Review Period composed mainly of finished goods. Pou Sheng Group's inventories increased from approximately RMB3.7 billion as at YE2014 to approximately RMB4.5 billion as at HYE2017, whereas its average inventories turnover days has gradually declined (FY2014: 160 days; FY2015: 144 days; FY2016: 145 days and 1H2017: 131 days).

Trade and other receivables

Trade and other receivables of the Pou Sheng Group for the Financial Review Period composed mainly of trade receivables, deposits, prepayments and other receivables. Pou Sheng Group's trade and other receivables increased from approximately RMB2.0 billion as at YE2014 to approximately RMB2.8 billion as at HYE2017, whereas its average trade receivables turnover days remained rather stable at around 30 days (FY2014: 31 days; FY2015: 28 days; FY2016: 28 days and 1H2017: 28 days).

Trade and other payables

Trade and other payables of the Pou Sheng Group for the Financial Review Period composed mainly of trade payables, bill payables, receipt in advance from customers, amounts due to related and connected parties, accrued staff costs, and other accruals and payables. Pou Sheng Group's trade and other payables increased slightly from approximately RMB1.3 billion as at YE2014 to approximately RMB1.5 billion as at HYE2017, whereas its average trade and bill payables turnover days has dropped substantially throughout the Financial Review Period (FY2014: 24 days; FY2015: 25 days; FY2016: 22 days and 1H2017: 10 days).

Bank borrowings

Pou Sheng Group's bank borrowings increased markedly from approximately RMB1.2 billion as at YE2014 to approximately RMB2.2 billion as at HYE2017.

(iii) Prospects of the Pou Sheng Group

As mentioned in the Pou Sheng's 2017 interim report, the operating environment for the Pou Sheng Group was mixed during 1H2017. On the one hand, the PRC's economy has continued to flourish as demonstrated by its growth in GDP of more than 6.5% and the amount of retail spending grew by double digits during the same period. Accompanied with the PRC government's promotions and policy supports to the sports and fitness, it is probable that the sportswear industry in general will face an upward trend in the foreseeable future. On the other hand, there has been a high growth of sports spending being consumed by more diverse channels and sophisticated manners, challenging retailers such as the Pou Sheng Group which adopted traditional marketing and sales approaches. Furthermore, the growth of consumer spending on sportswear has attracted more international players to enter the market and intensified competition within it.

Against the backdrop illustrated above, the Pou Sheng Group has started to improve and enhance its offline and online operations by converting its current operations to become more adaptive to the PRC's new retailing environment, which are more experiencing and storytelling oriented, bigger format stores expansions and more frequent seasonal promotion activities by events and products. It is also believed that continuous investment is required to develop and upgrade existing branding, store formats and digital channels.

4. Information on the Pou Chen Group and its intention regarding the future of the Pou Sheng Group

Pou Chen is a company incorporated in Taiwan with limited liability by shares, the shares of which have been listed on the Taiwan Stock Exchange since 1990 (stock code: 9904.TW).

The Pou Chen Group is principally engaged in the manufacturing of footwear and garment, the sportswear retail and brand licensing businesses, and other businesses including real estate development and hotel operation.

Following the implementation of the Proposal, Pou Chen intends that Pou Sheng will continue to carry on its business of retailing of sportswear and distribution of licensed products. Pou Chen intends to pursue various initiatives to adapt Pou Sheng to the shifting market dynamics, so as to enable it to continue to be a leading sports retailer in the PRC with great market scale and distribution potential.

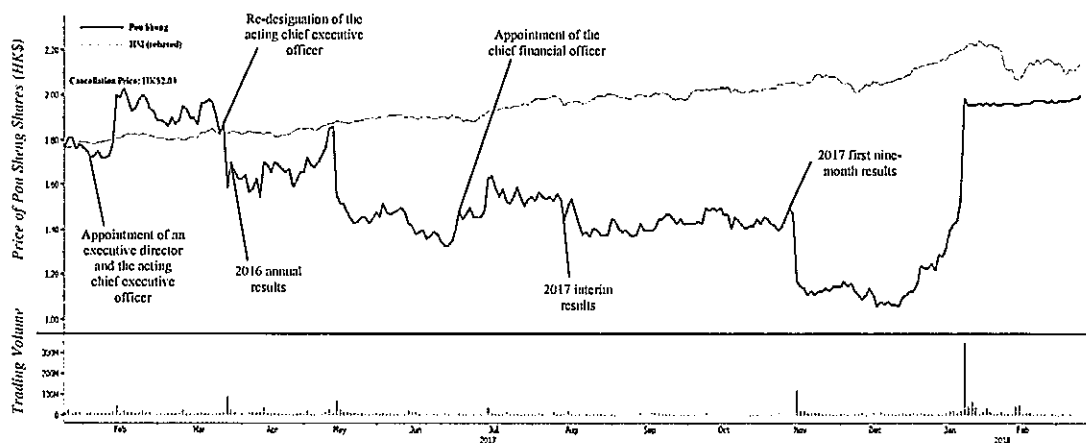
5. Pou Sheng Share price and trading volume

The Cancellation Price of HK\$2.03 per Pou Sheng Share represents:

- (a) a premium of approximately 31.82% over the closing price of HK\$1.54 per Pou Sheng Share as quoted on the Stock Exchange on the Last Trading Day;

- (b) a premium of approximately 51.49% over the average closing price of approximately HK\$1.34 per Pou Sheng Share based on the daily closing prices as quoted on the Stock Exchange for the 10 trading days up to and including the Last Trading Day;
- (c) a premium of approximately 70.68% over the average closing price of approximately HK\$1.19 per Pou Sheng Share based on the daily closing prices as quoted on the Stock Exchange for the 30 trading days up to and including the Last Trading Day;
- (d) a premium of approximately 64.39% over the average closing price of approximately HK\$1.23 per Pou Sheng Share based on the daily closing prices as quoted on the Stock Exchange for the 60 trading days up to and including the Last Trading Day;
- (e) a premium of approximately 51.11% over the average closing price of approximately HK\$1.34 per Pou Sheng Share based on the daily closing prices as quoted on the Stock Exchange for the 120 trading days up to and including the Last Trading Day;
- (f) a premium of approximately 1.50% over the closing price of HK\$2.00 per Pou Sheng Share as quoted on the Stock Exchange on the Latest Practicable Date; and
- (g) a premium of approximately 41.96% over the unaudited consolidated net asset value of approximately RMB1.18 (equivalent to approximately HK\$1.43) per Pou Sheng Share as at June 30, 2017, calculated based on the unaudited consolidated net asset value of the Pou Sheng Group attributable to the Pou Sheng Shareholders of RMB6,281,560,000 (equivalent to approximately HK\$7,633,979,868) as at June 30, 2017 divided by the total number of 5,338,548,615 Pou Sheng Shares in issue as at the Latest Practicable Date.

The following chart illustrates the price performance of the Pou Sheng Shares relative to the Hang Seng Index (“HSI”) and its trading volume from January 20, 2017, being the date one year preceding the Last Trading Day, up to and including the Latest Practicable Date (“Review Period”):



Source: Bloomberg

We are of the view that the one year period preceding the Last Trading Day adopted is an appropriate and representative timeframe for our analysis as such period reflects Pou Sheng Group's latest business and financial performance, in particular, the negative operating cashflow it generated for FY2016 and the sudden drop of its profitability for the 1H2017 (for details, please refer to the subsection above headed "3. Financial performance of the Pou Sheng Group").

As shown in the chart above, the Pou Sheng Shares have broadly underperformed the HSI (on a rebased basis) during the Review Period. The closing prices of Pou Sheng Shares were at par, which happened once on February 15, 2017, or below the Cancellation Price at all times during the Review Period. The Cancellation Price represents a marked premium of approximately 30.1% over the average closing price of approximately HK\$1.56 during the Review Period.

It is notable that the daily closing price of Pou Sheng Shares reached its peak of HK\$2.03 in mid-February 2017, after the announcement of appointment of Pou Sheng's executive Director and Acting Chief Executive Officer on February 3, 2017. Following the release of Pou Sheng's final results for the year ended December 31, 2016 and the later release of unaudited results for the nine months ended September 30, 2017, among other things, closing prices of Pou Sheng Shares demonstrated a trend of gradual decline until early January 2018, a time which was shortly prior to the Announcement Date.

In addition to the share price chart shown above, we have computed certain relevant statistical information on the share price performance and liquidity of the Pou Sheng Shares below for the one year preceding the Last Trading Day.

Reference period	Highest closing price	Lowest closing price	Average daily VWAP (average)	Premium of Cancellation Price average daily above VWAP	Average daily trading volume ('000)	Average daily trading volume as a percentage of total number of issued shares
Last 1 year	2.03	1.06	1.50	35.07%	8,600	0.16%
Last 6 months	1.59	1.06	1.35	50.22%	6,577	0.12%
Last 3 months	1.54	1.06	1.24	63.35%	8,412	0.16%
Last 1 month	1.54	1.06	1.23	65.33%	8,992	0.17%
Last Trading Day	N/A	N/A	1.50	35.38%	23,731	0.44%

Source: Bloomberg

Notes:

- (1) The average daily VWAP is calculated as the daily turnover amount divided by trading volume of Pou Sheng Shares; and
- (2) The average daily trading volume is computed as the total trading volume of Pou Sheng Shares during the reference period divided by the number of trading days during that reference period.

We observed from the above trading statistics for the Pou Sheng Shares that:

- (a) The Cancellation Price represents a premium of 35.07%, 50.22%, 63.35% and 65.33% over the average daily VWAP of the Pou Sheng Shares for the 1 year, 6 months, 3 months and 1 months period, preceding and up to the Last Trading Day, respectively; and
- (b) Liquidity of the Pou Sheng Shares has been low as demonstrated by the average daily trading volume for the 1 year, 6 months, 3 months and 1 month periods preceding and up to the Last Trading Day as a percentage of total number of issued shares was merely 0.16%, 0.12%, 0.16% and 0.17%, respectively.

6. Cancellation Price analysis

(i) *Comparable company analysis*

To assess the fairness and reasonableness of the Cancellation Price, we have looked at Hong Kong listed companies which are comparable to Pou Sheng, focusing our analysis on the price-to-earnings ratio (“**PE ratio**”), enterprise value to EBITDA ratio (“**EV/EBITDA**”) and price-to-book ratio (“**PB ratio**”) as shown in the table below.

As illustrated in the sub-section headed “3. Financial performance of the Pou Sheng Group” above, the Pou Sheng Group mainly derived its revenue from two main business segments in the PRC, namely the sales of sportswear and footwear products and commissions from concessionaire sales, for the Financial Review Period. Having considered the financial performance and position of the Pou Sheng Group, we have identified the companies below, whose shares are listed on the Main Board of the Stock Exchange, and which are primarily engaged in sales of footwear products in the PRC. Based on the above criteria, the nine comparable companies listed below were identified and form an exhaustive list providing a fair and representative benchmark for assessing the Cancellation Price. Yue Yuen was excluded from this list as it holds more than 50% of the total issued Pou Sheng Shares and consolidates the financial performance of Pou Sheng. Pou Sheng Shareholders should note that the business, operation and prospect of Pou Sheng Group are not exactly the same as those of the companies we have selected, and we have not conducted any in-depth investigation into business and operations of the selected companies save for the aforesaid selection criteria. Nevertheless, the companies selected below can serve as a meaningful reference in assessing the fairness and reasonableness of the Cancellation Price.

Ticker	Company name	Market capitalization as at the Latest Practicable Date (HK\$'mil)	PE ratio (x) (note 3)	EV/	
				EBITDA (x) (note 4)	PB ratio (x) (note 5)
2020	ANTA Sports Products Limited	108,725	29.0	19.7	6.5
2331	Li Ning Company Limited	16,582	19.0	14.0	2.9
1368	Xtep International Holdings Limited	7,975	14.3	5.6	1.3
1361	361 Degrees International Limited	5,872	10.8	3.6	0.9
1028	C.banner International Holdings Limited	5,109	27.1	13.5	2.0
738	Le Saunda Holdings Limited	896	11.2	0.7	0.6
1386	Vestate Group Holdings Limited	824	N/A	N/A	9.4
1255	S. Culture International Holdings Limited	813	N/A	N/A	5.0
210	Daphne International Holdings Limited	800	N/A	N/A	0.2
		Maximum	29.0	19.7	9.4
		Minimum	10.8	0.7	0.2
		Average	18.6	9.5	3.2
		Median	16.7	9.6	2.0
	Pou Sheng - based on the Proposal (note 1)	10,842	18.3	9.5	1.4
	Pou Sheng - based on the closing price of Pou Sheng Share on the Last Trading Day (note 2)	8,221	13.9	7.6	1.1

Sources: Bloomberg, Thomson Reuters, the annual reports and announcements of annual results of the relevant companies, and the website of the Stock Exchange

Notes:

1. The Cancellation Price is used to determine the price per share, market capitalization, PE ratio, EV/EBITDA and PB ratio of Pou Sheng. Latest twelve months earnings attributable to owners of the company, latest twelve months earnings before interest, tax, depreciation and amortization, and latest published net asset value attributable to owners of the company are used as the denominator of the respective valuation multiple.
2. The closing price of the Pou Sheng Share on the Last Trading Day is used to determine the price per share, market capitalization, PE ratio, EV/EBITDA and PB ratio of Pou Sheng. Latest twelve months earnings attributable to owners of the company, latest twelve months earnings before interest, tax, depreciation and amortization, and latest published net asset value attributable to owners of the company are used as the denominator of the respective valuation multiple.
3. The PE ratios of the comparable companies are calculated based on their respective market capitalization on the Latest Practicable Date, divided by their respective latest twelve months earnings attributable to owners of the relevant companies.
4. The EV/EBITDA of the comparable companies are calculated based on their respective market capitalization on the Latest Practicable Date plus total borrowings, minority interest and preference shares, minus total cash and cash equivalents, divided by their respective latest twelve months earnings before interest, tax, depreciation and amortization..
5. The PB ratios of the comparable companies are calculated based on their respective market capitalization on the Latest Practicable Date, divided by their respective net asset value attributable to owners of the relevant comparable companies.

The Cancellation Price implies a market capitalization of Pou Sheng which represents around 18.3 times its latest twelve months net profit attributable to owners of the company. This PE ratio is close to the average of the comparables' of 18.6 times.

On the other hand, the enterprise value implied by the Cancellation Price divided by Pou Sheng's latest twelve months earnings before interest, tax, depreciation and amortization is around 9.5 times, which is at par with the average of the comparables' of 9.5 times.

We believe P/E ratio and EV/EBITDA are preferable multiples to assess the fairness and reasonableness of the Cancellation Price because they are commonly adopted in the market and easily comprehensible, and they reflect the fundamental view that a company's value is mainly attributable to what it generates for its shareholders, i.e., earnings.

The PB ratio is not a meaningful indicator of value for companies operating in the branded retail sector because in general, such companies' asset composition consists largely of inventories and trade receivables rather than assets which are marked to market periodically. PB ratio is usually applied to evaluate companies that engage in capital-intensive business, for instance, financial institutions and real estate development companies. Hence we have not given much consideration to this multiple. That said, we do note that Pou Sheng's PB ratio implied by the Cancellation Price is approximately 1.4 times which is within the range of the comparables' but lower than their average of 3.2. In any event, the PB ratio of 1.4 is well above 1, indicating that the Cancellation Price exceeds Pou Sheng's book value.

(ii) Comparable transaction analysis

We have reviewed recent privatization proposals in Hong Kong and selected successful privatizations of companies listed on the Main Board of the Stock Exchange by their respective controlling shareholder(s) irrespective of their industries and market capitalizations, and announced and completed from January 20, 2015, being the date three years preceding the Last Trading Day, up to and including the Latest Practicable Date (“**Precedent Privatizations**”). The list is exhaustive and is a fair representation of transactions comparable to the Proposal.

Based on the below table, the range of premium to the closing price of the last trading date, the average closing price of the last 30 days up to and including the last trading day and the latest reported net asset value of the Precedent Privatizations was 13.99% to 90.21%, 24.43% to 132.00% and -53.80% to 292.80%, with a median of 34.65%, 46.89% and 27.54%, respectively. Medians are used in lieu of averages for our analysis because they are less susceptible to the influence of outliers. While the premium represented by the Cancellation Price to the closing price of the Last Trading Day, the average closing price of the last 30 days up to and including the Last Trading Day and the latest reported net asset value is 31.82%, 70.68%, and 41.96%, respectively, each of which is within the corresponding range and is close to or even higher than the medians of the Precedent Privatizations.

It is worth mentioning that earnings multiples have not been considered in this analysis as the companies in the list of Precedent Privatizations operate in diverse industries and therefore exhibit varying levels of profitability and valuation expected by the market. Besides, we believe that trading price should be the most objective and reliable indicator of a listed company’s value, which is driven by numerous factors, including but not limited to one’s historical and expected profitability and financial position, which are considered by the market. As a result, we focus on the premium of offer/cancellation price over trading price, rather than exploring other less meaningful analyses, for assessing of the fairness and reasonableness of the Proposal.

Date of initial announcement	Ticker	Company	Industry	By way of	Premium/ Discount to Last Trading Date	Premium/ Discount to the average of the last 30 days	Premium/ Discount to reported NAV
10/11/2017	382	Welling Holding Limited	Consumer	Scheme of arrangement	30.40%	33.80%	22.60%
03/07/2017	170	China Assets (Holdings) Limited	Financials	Scheme of arrangement	61.50%	76.60%	-53.80%
19/06/2017	963	Bloomage BioTechnology Corporation Limited	Materials	Scheme of arrangement	13.99%	24.43%	233.33%
29/05/2017	319	China Metal International Holdings Inc.	Industrials	Scheme of arrangement	27.54%	25.94%	27.54%
20/04/2017	1136	TCC International Holdings Limited	Materials	Scheme of arrangement	38.50%	51.00%	- 4.10%

Date of initial announcement	Ticker	Company	Industry	By way of	Premium/Discount to Last Trading Date	Premium/Discount to the average of the last 30 days	Premium/Discount to reported NAV
29/03/2017	283	Goldin Properties Holdings Limited	Real Estate	Voluntary conditional cash offer	36.80%	33.90%	101.30%
10/01/2017	1833	Intime Retail (Group) Company Limited	Consumer Discretionary	Scheme of arrangement	42.25%	51.77%	67.36%
01/12/2016	549	Jilin Qifeng Chemical Fiber Co., Ltd.	Materials	Voluntary conditional cash offer	27.56%	49.66%	-0.10%
23/09/2016	3668	Chinalco Mining Corporation International	Materials	Scheme of arrangement	32.40%	33.70%	239.00%
26/07/2016	1968	Peak Sport Products Co., Limited	Consumer Discretionary	Scheme of arrangement	35.40%	29.40%	9.70%
08/07/2016	1438	Nirvana Asia Ltd	Consumer Discretionary	Scheme of arrangement	22.40%	36.40%	225.91%
17/06/2016	1768	Bracell Limited	Materials	Scheme of arrangement	44.30%	132.00%	-6.45%
12/06/2016	2618	TCL Communication Technology Holdings Limited	Information Technology	Scheme of arrangement	34.65%	47.06%	135.11%
30/05/2016	3699	Dalian Wanda Commercial Properties Co., Ltd.	Real Estate	Voluntary conditional cash offer	44.50%	50.83%	10.90%
29/05/2016	477	AUPU Group Holding Company Limited	Consumer Discretionary	Scheme of arrangement	24.90%	29.70%	292.80%
18/02/2016	3386	Dongpeng Holdings Company Limited	Materials	Scheme of arrangement	31.76%	46.89%	131.72%
02/02/2016	839	Anhui Tianda Oil Pipe Company Limited	Energy	Mandatory unconditional cash offer	59.00%	49.00%	-32.00%
06/01/2016	917	New World China Land Limited	Real Estate	Voluntary conditional cash offer	25.60%	40.80%	11.50%
20/10/2015	1025	Wumart Stores, Inc.	Consumer Staples	Voluntary conditional cash offer	90.21%	77.71%	61.98%

Date of initial announcement	Ticker	Company	Industry	By way of	Premium/Discount to Last Trading Date	Premium/Discount to the average of the last 30 days	Premium/Discount to reported NAV	
27/05/2015	2266	Dorsett Hospitality International Limited	Consumer	Scheme of arrangement Discretionary	32.40%	41.70%	-1.10%	
26/02/2015	1390	econtext Asia Limited	Information Technology	Scheme of arrangement	41.00%	59.90%	37.05%	
					Mean	37.96%	48.68%	71.92%
					Median	34.65%	46.89%	27.54%
					Max	90.21%	132.00%	292.80%
					Min	13.99%	24.43%	-53.80%
21/01/2018	3813	Pou Sheng	Consumer	Scheme of arrangement Discretionary	31.82%	70.68%	41.96%	

Source: Bloomberg and the website of the Stock Exchange

7. Other considerations

(a) Potential consequences of failing to complete the Proposal

Rule 31.1 of the Takeovers Code restricts any offeror nor person who, in the original offer or subsequently, is acting in concert with it, to make another offer for the offeree company or acquire any voting rights of the offeree company if such acquisition would lead to a mandatory general offer within 12 months from the date on which the preceding offer is withdrawn or lapses, except with the consent of the Executive. As a result of such restriction, if the Proposal fails, neither Pou Chen Group nor Yue Yuen Group or any person acting in concert with them may propose another proposal to privatize Pou Sheng within the next 12 months. We do not believe that any privatization proposal made by a third party would be possible without the acceptance from Yue Yuen, which directly or indirectly held approximately 62.38% of the total issued share capital of Pou Sheng as at the Latest Practicable Date.

(b) Deteriorating operating cashflow

We note that currently the Pou Sheng Group has been experiencing a net cash used in operating activities. The Pou Sheng Group generated a net cash from operating activities of approximately RMB878.5 million for FY2015 but such figure reversed to a net cash used of RMB11.4 million for FY2016 and RMB111.4 million for 1H2017. We understand from the management of Pou Sheng that such reversion was mainly a result of a piling of inventories.

OPINION AND RECOMMENDATION

In relation to the Proposal and the Option Offer, having considered the principal factors and reasons, and in particular the following:-

- (a) The footwear business of the Group is currently facing a rapid shift of demand from customers in respect of distribution means. Traditional store shopping is now being challenged as technological advancement has provided customers a greater variety of choice on shopping experiences, such as e-commerce, online-to-offline sales, the adoption of virtual-reality and augmented-reality technology, and so on. Against this background, it is expected the Pou Sheng Group will have to invest swiftly and heavily in transforming its distribution methods in order to maintain its competitiveness;
- (b) Pou Sheng's recent operating profit and net profit margins have both deteriorated markedly, mainly due to the surge of selling and distribution expenses, accompanied with a net cash used in its operating activities for each of the FY2014 and 1H2017. It is expected that in addition to the investment in transforming its distribution channels as mentioned above, the Pou Sheng Group will also need to spend heavily on brand promotion and marketing to combat with the increased competition within the market;
- (c) Pou Chen is a controlling shareholder of Yue Yuen which in turn controls approximately 62.38% shareholding in Pou Sheng. Strictly speaking, in the absence of support from Pou Chen, it is impossible for any third party to privatize Pou Sheng. As Pou Chen does not reserve the rights to increase the Cancellation Price, we are of the opinion that HK\$2.03 per Scheme Share under the Scheme is the only offer Pou Sheng Shareholders will have, at least in the short-run, to monetize their shareholdings;
- (d) The price of the Pou Sheng Shares broadly underperformed the HSI during the Review Period, as the price of the Pou Sheng Shares recorded a price return of approximately -13.0% from the date one year preceding the Last Trading Day up to and including the Last Trading Day, while the HSI recorded a price return of approximately 40.9% during the same period;
- (e) The Cancellation Price represents a PE ratio and EV/EBITDA of 18.3 times and 9.5 times, respectively. These multiples are very close to the respective average of comparable companies'. As at the Last Trading Day, the Pou Sheng Shares were traded at PE ratio and EV/EBITDA of around 13.9 and 7.6 times respectively. If the Proposal is not approved, trading in the future may resume at these lower multiples or potentially be even lower if margins continue to fall;
- (f) The Cancellation Price of HK\$2.03 represents 31.82%, 70.68%, and 41.96% to the closing price on the Last Trading Date, the average closing price for the last 30 days up to and including the Last Trading Day and the reported net asset value;
- (g) The Offeror has stated that it will not increase the Cancellation Price, and hence no increase will be permitted under the Takeovers Code; and

- (h) If the Proposal is not approved, the Pou Sheng Shareholders should not expect to be offered another privatization proposal within the next 12 months.

Having considered the principal factors and reasons set out above, we consider the terms of the Proposal and the Option Offer fair and reasonable so far as the Disinterested Scheme Shareholders and the Pou Sheng Optionholders are concerned. Accordingly, we advise the Independent Board Committee to recommend (a) the Scheme Shareholders to vote in favour of the resolution to approve the Scheme at the Court Meeting; (b) the Pou Sheng Shareholders to vote in favour of the special resolution to approve the implementation of the Scheme at the SGM; and (c) the Pou Sheng Optionholders to accept the Option Offer.

Yours faithfully,
for and on behalf of
Anglo Chinese Corporate Finance, Limited



Dian Deng
Director

Ms. Dian Deng is a licensed person registered with the SFC and a responsible officer of Anglo Chinese Corporate Finance, Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO and has over ten years of experience in corporate finance industry.