361°

361 Degrees International Limited
361度國際有限公司

(incorporated in the Cayman Islands with limited liability)

Stock Code：1361

08/09 ANNUAL REPORT

Contents

Company Information

BOARD OF DIRECTORS

Executive Directors

Ding Wuhao (丁伍號)
Ding Huihuang (丁輝煌) *(Chairman)*
Ding Huirong (丁輝榮)
Wang Jiabi (王加碧)

Independent Non-executive Directors

Mak Kin Kwong (麥建光)
Sun Xianhong (孫先紅)
Liu Jianxing (劉建興)

BOARD COMMITTEES

Audit Committee

Mak Kin Kwong (麥建光) *(Chairman)*
Sun Xianhong (孫先紅)
Liu Jianxing (劉建興)

Remuneration Committee

Wang Jiabi (王加碧) *(Chairman)*
Sun Xianhong (孫先紅)
Liu Jianxing (劉建興)

Nomination Committee

Ding Wuhao (丁伍號) *(Chairman)*
Mak Kin Kwong (麥建光)
Liu Jianxing (劉建興)

COMPANY SECRETARY

Choi Mun Duen (蔡敏端)

AUTHORISED REPRESENTATIVES

Ding Wuhao (丁伍號)
Choi Mun Duen (蔡敏端)

REGISTERED OFFICE

Cricket Square, Hutchins Drive
PO Box 2681
Grand Cayman, KY1-1111
Cayman Islands

HEAD OFFICE IN THE PRC

Jiangtou Industrial Park
Chendai Town, Jinjiang City
Fujian Province 362200, the PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

43rd Floor, Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

STOCK CODE

01361

Company Information

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fulcrum Group (Cayman) Limited
Butterfield House, 68 Fort Street
P.O. Box 609
Grand Cayman KY1-1107
Cayman Islands

HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

AUDITOR

KPMG

LEGAL ADVISERS

As to Hong Kong and United States laws:
Orrick, Herrington & Sutcliffe

As to PRC law:
Tian Yuan Law Firm

As to Cayman Islands law:
Conyers Dill & Pearman

COMPLIANCE ADVISER

Piper Jaffray Asia Limited

PRINCIPAL BANKERS

China Construction Bank Corporation
Industrial Bank Co., Ltd.

COMPANY WEBSITE

www.361sport.com

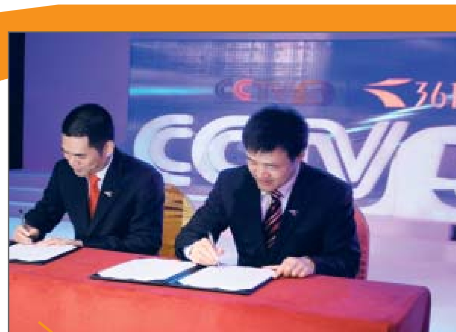
Milestones for 08/09

FY2008

In 2008, 361° entered into an agreement with Jinmen Marathon and Zhengkai Marathon to become the global top cooperative partner and the sole designated sports equipments of these athletic events in 2009. The event promoted Marathon spirits and the culture of healthy running of the 361° brand.

In 2008, 361° brand's advertisement, TVC Challenge Chapter, received an extraordinary honor together with other top-class international brands in the China excellent advertisements "IAI Annual Award" hosted by China Association of Business Advertisement and Communication University of China, and implemented by organisations including IAI International Advertisement Institute and BBI Business Brand Strategy Institute. In addition, the advertisement slogan of 361° brand, "China, dare to be", was selected as one of the Top 10 Pop Advertisement Slogans in 2008.

On 21 November 2008, 361° was appointed as 2010 Guangzhou Asian Games Sportswear Prestige Partner to join hands with Asia's top sports event, become the first Chinese sports brand giving full sponsorship for the Games and integrate world-class advantageous resources, which led to a further acceleration in its globalization process.



On 28 November 2008, 361° successfully bidded the sponsorship of sportswear for CCTV Sports Channel. The Group is focusing on CCTV Sports Channel in 2009 and targeting at Post-Olympics sports marketing.

Milestones for 08/09

FY 2009

On 12 March 2009, the Group successfully entered into a contract with the Olympic Council of Asia in Kuwait. 361° is the sole sports brand in China which acted as the sponsor of the Asian Games as well as the global official sponsor of the continental sports organization.

On 7 May 2009, 361° entered into an agreement with CCTV to be the title sponsor of the China's Table Tennis League in 2009. The Group will work together with "China Table Tennis and Badminton Center" to make the League one of the best table tennis leagues in the world and promote its development both in China and around the world.

On 30 June 2009, the Company was successfully listed on the Main Board of The Stock Exchange of Hong Kong. The stock code is 01361.

Financial Highlights for 08/09

Turnover significantly increased by

161.7 %

to RMB **3,447** million

Profit attributable to the equity holders is
RMB **632.1** million, representing a significant

growth of 253.2 %

Gross profit margin increased by
8.2 % to

34.6 %

Financial Performance
Turnover significantly increased by 161.7% to RMB3,447 million
Gross profit substantially increased by 243.0% to RMB1,193 million
Operating profit increased by 265.5% to RMB740 million
Profit attributable to the equity holders is RMB632.1 million, representing a significant growth of 253.2%
Gross profit margin increased by 8.2% to 34.6%
Basic earnings per share is RMB42.1, representing a growth of 253.8%
Proposed to declare a final dividend of RMB6.5 cents per share

Business Performance
Total number of 361° retail outlets increased 1,423 to 6,055
Income from sales of footwear products increased by 87.6% to RMB1,617.0 million
Income from the sales of apparel products increased by 305.5% to RMB1,754.9 million
Income from the sales of accessories and other products increased by 310.3% to RMB74.7 million
The Group has set up a concept store for its brand in Chengdu, Sichuan province for broadening its network coverage and expanding to a new area for its business model.

Financial Summary

For the year ended 30 June	2009	2008	2007	2006
Profitability data		(RMB'000)		
Revenue	**3,446,588**	1,317,069	373,346	262,923
Gross Profit	**1,193,803**	348,028	76,923	27,058
Operating profit	**740,200**	202,543	29,331	12,337
Profit for the year	**632,111**	178,973	22,911	11,006
Basic earnings per share (RMB cents) (Note 1)	**42.1**	11.9	1.5	0.7
Profitability ratios		(%)		
Gross profit margin	**34.6**	26.4	20.6	10.3
Operating profit margin	**21.5**	15.4	7.9	4.7
Net profit margin	**18.3**	13.6	6.1	4.2
Effective tax rate	**12.7**	9.2	12.9	N/A
Return on average total equity holders' equity (Note 2)	**44.7**	80.5	23.0	19.2
Operating ratios (as a percentage of revenue)		(%)		
Advertising and marketing expenses	**8.2**	6.4	9.1	3.3
Staff costs	**3.1**	5.4	11.2	13.5
Research and development	**0.4**	0.3	0.06	0.06

Notes:

1) The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company divided by the weighted average number of ordinary shares in issue during the relevant year.

2) Return on average total equity holders' equity is equal to the profit for the year divided by the average opening and closing total equity holders' equity.

Financial Summary

As at 30 June	**2009**	2008	2007	2006
Assets and liabilities data		(RMB'000)		
Non-current assets	**333,172**	112,080	40,892	20,266
Current assets	**3,745,678**	1,040,235	350,030	249,064
Current liabilities	**1,559,148**	831,145	263,791	197,592
Non-current liabilities	**9,504**	3,584	—	—
Shareholders' equity	**2,510,198**	317,586	127,131	71,738
Asset and Working Capital data				
Current asset ratios	**2.4**	1.3	1.3	1.3
Gearing ratios (%) (Note 3)	**6.5**	13.0	15.3	16.0
Net asset value per share (RMB) (Note 4)	**1.3**	N/A	N/A	N/A
Average inventory turnover days (days) (Note 5)	**21**	47	64	39
Average trade and bills receivables turnover days (days) (Note 6)	**103**	86	75	64
Average trade and bills payables turnover days (days) (Note 7)	**118**	111	151	164

Notes:

3) The calculation of gearing ratio is based on the interest-bearing debt divided by the total asset of the Group at the end of the year.

4) The calculation of net asset value per share is based on the total number of shares in issue after the Company's listing and at the end of the year.

5) Average inventory turnover days is equal to the average opening and closing inventory divided by costs of sales and multiplied by 365/366 days.

6) Average trade and bills receivables turnover days is equal to the average opening and closing trade and bills receivables divided by revenue and multiplied by 365/366 days.

7) Average trade and bills payables turnover days is equal to the average opening and closing trade and bills payables divided by cost of sales and multiplied by 365/366 days.

Chairman Statement

Ding Huihuang *Chairman*

Dear Shareholders:

On behalf of the board of directors ("the Board") of 361 Degrees International Limited, I am pleased to report the audited annual results of the Company and its subsidiaries ("the Group") for the year ended 30 June 2009.

The financial year of 2008/09 confers a special meaning in our corporate history. In November 2008, the Group was appointed as Guangzhou 2010 Asian Games Sportswear Prestige Partner, an accolade showing the strength of 361° as a professional sports brand. Meanwhile, thanks to efforts by all parties, the Group was successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited on 30 June 2009, and the Hong Kong Public Offer was significantly over-subscribed. The IPO raised a net proceeds of HK$1,677.6 million, a substantial sum that reflected investors' confidence in our business prospect and competitive edge.

During the financial year under review, the Group's results hit new records with turnover reaching RMB3,446.6 million, representing a significant increase of 161.7% as compared with that of the preceding financial year. Profit attributable to shareholders rose strongly by 253.2% to RMB632.1 million as compared with that of the previous financial year mainly due to successful promotion of the 361° brand, rapid retail network expansion, improvements in research & development and technology of products, expansion of product range and the successful migration to the new exclusive distribution business model that made distributors across China to concentrate their resources on wholesale and distribution of 361° products, a move that fuelled the rapid development and expansion of the Group's distribution network. Basic earnings per share for the financial year under review were RMB42.1 cents (2008: RMB11.9 cents). The Board has recommended to declare, subject to shareholders approval, a final dividend of RMB6.5 cents per share for the financial year to reward the shareholders and share with them the fruits of our rapid development.

The sportswear sector in China has evolved into a major beneficiary of a flurry of positive impetus including the country's rapid economic growth, accelerating urbanization and the increase in per capita disposable income. During the year under review, the Group continued to implement its composite branding communication strategy that integrated its high-end sports event resources with execution of its product promotion plan, the three new product launches and order fairs held and the point-of-sales promotion, to enhance the popularity and reputation of the Group's 361° brand. At the same time, the Group continued to expand its distribution network in the ten existing core markets, including Beijing, Guangzhou, Kunming, Nanjing, Ji'nan, Shanghai, Shenyang, Shijiazhuang, Wuhan and Zhengzhou, and opened a new brand concept stores in Chengdu, Sichuan Province during the year, a move that added a new dimension to the Group's business model and expanded its retail coverage. As at 30 June 2009, the Group's products are distributed through 3,277 authorized retailers owned and managed by 30 distributors. These authorized retailers then sell products to 6,055 361° authorized retail outlets in 31 Provinces, over 450 prefecture-level cities and over 1,200 county-level cities. The Group also conducted product research & development, continuously improved the Group's product innovation capabilities and enriched product offerings in response to trends in the market and among professional athletes to better accommodate their varying tastes and needs.

Chairman Statement

The Group has been putting heavy emphasis on brand building and promotion, and hosted influential collaborative marketing campaigns through sponsorships in high-end sports events that geared towards enhancing our brand image. In 2008, the Group started its collaboration with CCTV to require all CCTV Channel 5 (sports channel)'s reporters and journalists to wear the Group's sportswear products from 2009 to 2013 on certain programs and games broadcasted on CCTV Channel 5. This represented the highest-level collaboration with a sports media ever possible in China. During the same year, the Group reached an agreement to become one of the Guangzhou 2010 Asian Games Sportswear Prestige Partners. In 2009, the Group reached an agreement with agreement with the Olympic Council of Asia to become the Council's official sponsor worldwide. This is the first recognition in the same league ever attained by a home-grown Chinese sportswear brand. Also in 2009, the Group reached an agreement with CCTV to be the title sponsor of China Table Tennis Super League. All these moves enriched the Group's domestic high-end sports event resources.

Looking forward, China's consumption in sports utility products are set to increase as consumers continue to see their consumption power develop, as they become increasingly conscious to brands, as market demand increases following hosting of more world-class sports events on China, as the State Sport General Administration implements a national fitness policy and as second-tier and third-tier cities see their development potential escalates. As one of the fastest growing sports brands in China, the Group will stay vigilant to the changing market landscape take advantage of opportunities that emerge and fully utilize the proceeds raised from the IPO to further accelerate in the Group's brand building and distribution network establishment, and extend the reach of the Group to broader territories domestically and overseas through brand promotion, sponsorships of high-end sports events, athletes, teams and other strategic marketing activities, and establishment of self-owned and self-managed flagship stores in prime locations in metropolitan and emerging cities. Meanwhile, we are also expanding our production base in Fujian Province and our production capacity. We are consistently improving our research & development and production systems and strengthening our innovative capability. We plan to develop a distinct children's footwear and apparel sub-brand, establish new products testing and research and development laboratory, optimize deployment of our corporate resources, improve our supply-chain management, enhance our production efficiency and continuously improve our operation. These efforts should help enhance the reputation, popularity, sales and market share of 361° brand, grooming 361° into a role model of sports brand development respected by the world.

On behalf of the Board, I would like to express my sincere gratitude to our management and all staff for their continuous efforts and whole-hearted devotion as well as our shareholders and customers for their support and trust in us.

Ding Huihuang
Chairman

Hong Kong, 22 September 2009

Management Discussion and Analysis

For the fiscal year ended 30 June 2009 ("the year 2008/09" or "this year"), the global economic environment has been substantially changed. Since the financial crisis induced by derivatives has spread through the United States as well as every country in the world, China was also unable to be immune from this once-in-a-century crisis. The significant decrease of import from the United States, the major country required the products from China, has given rise to many uncertainties to China's economy. Besides, numerous negative domestic economic data and circumstances, such as the trough in corporate profits and various catastrophic disasters, also weakened the spending desire of domestic customers. Given the micro market conditions, PRC Government has implemented decisive and effective proposals to boost the domestic demands, and thereby maintaining a high growth-rate of GDP.

Benefited from the unprecedented success of the 2008 Beijing Olympic Games, the sales of various sports products of the Group shown obvious growth in the year. However, the operating environment the Group heading still faces an array of challenges. The management will exercise prudence while formulating careful strategies and review the same from time to from, so as to enhance the Group's advantages and strengthen the competitiveness of our brand.

Financial Review

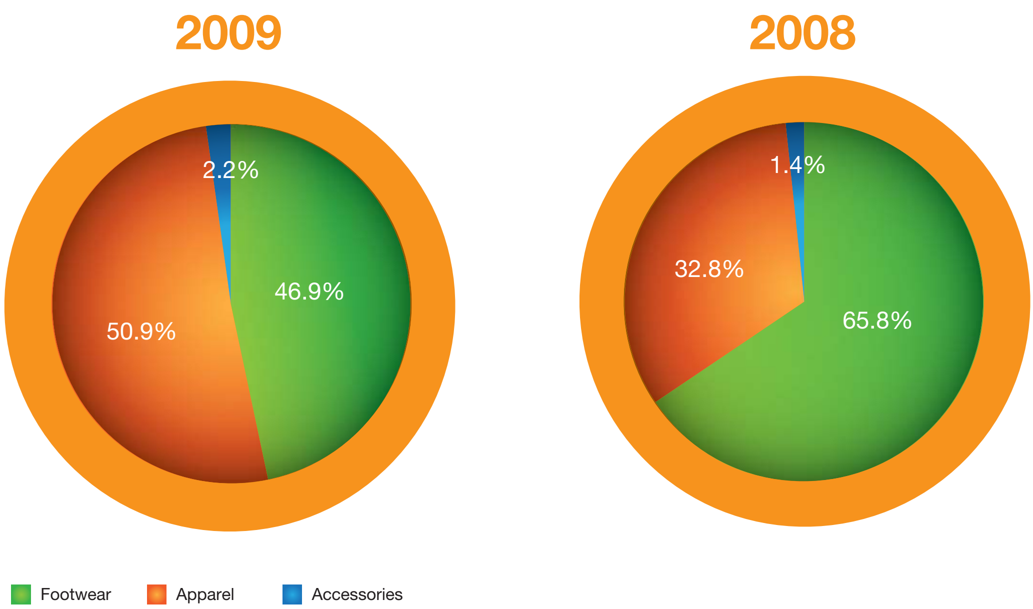
Revenues

Looking back to the year 2008/09, the vast majority of the Group's revenues was derived from sales of 361° products, consisting of footwear, apparel and accessories, and an insignificant amount was from the sales of raw materials. The following table sets forth a breakdown of the Group's revenues during the year 2008/09:

	For the financial year ended 30 June				
	2009		2008		
	RMB'000	**% of total revenues**	RMB'000	% of total revenues	Growth of revenues (%)
Revenues					
Footwear	**1,616,979**	**46.9%**	866,134	65.8%	86.7%
Apparel	**1,754,936**	**50.9%**	432,737	32.8%	305.5%
Accessories and others [1]	**74,673**	**2.2%**	18,198	1.4%	310.3%
Total	**3,446,588**	**100%**	1,317,069	100%	

Management Discussion and Analysis

Turnover by Products



Note:

(1) "Others" include revenues from sales of raw materials.

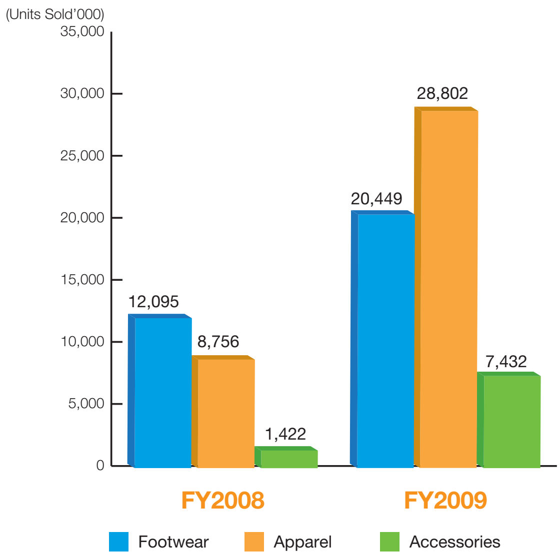
The significant growth of the 361° product sales was primarily due to the successful promotion of the 361° brand, rapid expansion of the 361° retail network, which grew from 4,632 361° authorized retail outlets as of the financial year ended 30 June 2008 ("the 2007/08 year" or "last year") to 6,055 as of the financial year ended 30 June 2009 ("the 2008/09 year" or "current year"), improved product design, expansion of our range of product offerings, and the Group's conversion to an exclusive distributorship business model, which encouraged the Group's distributors to concentrate their resources exclusively on the wholesale distribution of 361° products and help the Group to develop and expand the 361° retail network.

Management Discussion and Analysis

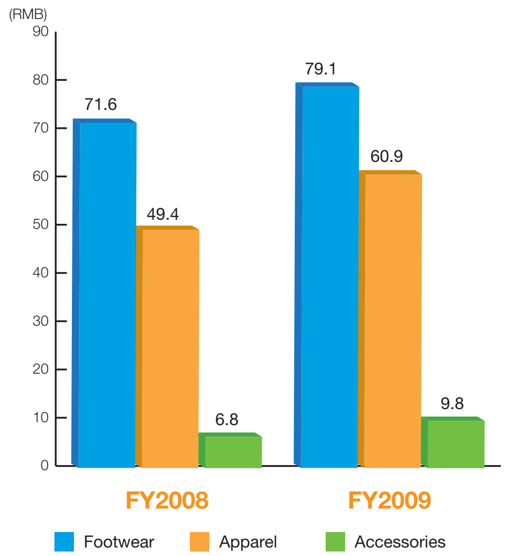
The following table sets forth the number of units sold and the average wholesale selling prices of the Group's 361° products during the year 2008/09:

	For the financial year ended 30 June			
	2009		2008	
	Total units sold '000	**Average wholesale selling price[1] RMB**	Total units sold '000	Average wholesale selling price[1] RMB
361° Products				
Footwear (pairs)	**20,449**	**79.1**	12,095	71.6
Apparel (pieces)	**28,802**	**60.9**	8,756	49.4
Accessories (pieces/pairs)	**7,432**	**9.8**	1,442	6.8

Units Sold



Average Wholesale Selling Price



Note:

(1) Average wholesale selling price represents the revenues divided by the total units sold for the year.

The total number of pairs of 361° footwear sold increased by 69.1% from 12.1 million last year to 20.4 million during the current year. This increase was primarily due to the successful promotion of the 361° brand, rapid expansion of the 361° retail network, improved product design, expansion of the Group's range of product offerings, and the Group's conversion to an exclusive distributorship business model. Increasing market demand for sportswear products and improving economic conditions in the PRC also contributed to the increase in sales. The average wholesale selling price of the 361° footwear increased by 10.5% from RMB71.6 last year to RMB79.1 during the current year, primarily because the Group was able to increase the suggested retail price of 361° footwear due to the greater brand recognition of the 361° brand.

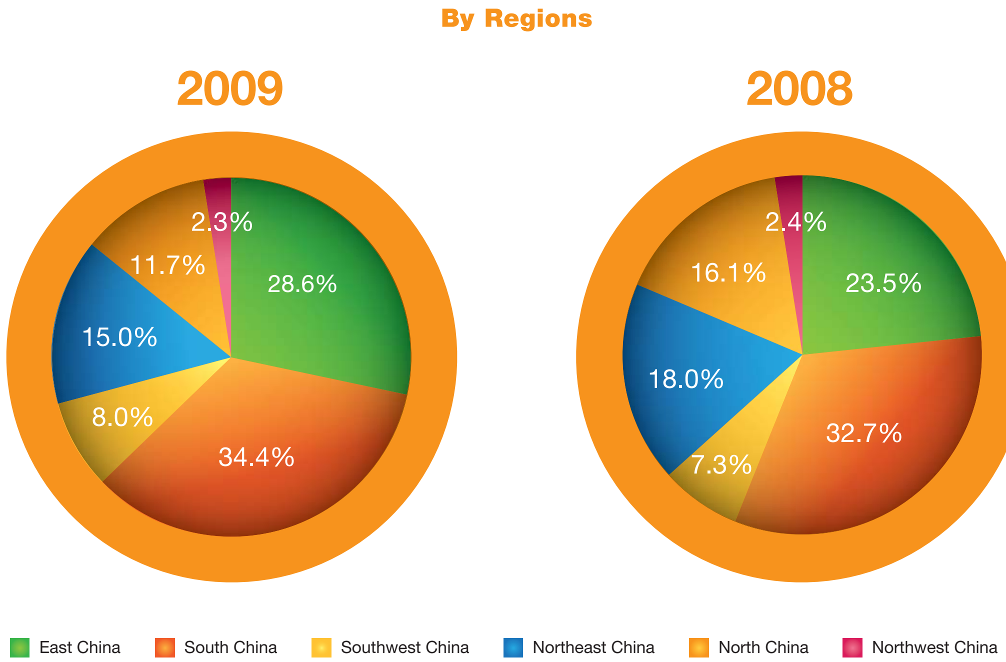
The total number of pieces of 361° apparel sold increased by 228.9% from 8.8 million last year to 28.8 million during the current year, primarily because the Group strategically sought to increase the sales mix of 361° apparel as apparel generally has higher profit margins than footwear products. Meanwhile, the increase in the market acceptance of 361° apparel led to an increasing demand of 361° apparel. The average wholesale selling price of 361° apparel increased by 23.3% from RMB49.4 last year to RMB60.9 during the current year.

During the current year, the total number of pieces/pairs of 361° accessories sold was 7.4 million and the average wholesale selling price was RMB9.8.

Revenues breakdown by regions

	For the financial year end 30 June				
	2009		2008		
	RMB'000	**% of total revenues**	RMB'000	% of total revenues	Growth rate (%)
361° products					
East China[1]	**985,890**	**28.6**	309,404	23.5	218.6
South China[2]	**1,184,356**	**34.4**	430,135	32.7	175.3
Southwest China[3]	**275,660**	**8.0**	96,140	7.3	186.7
Northeast China[4]	**517,434**	**15.0**	236,753	18.0	118.6
North China[5]	**402,721**	**11.7**	211,773	16.1	90.2
Northwest China[6]	**80,527**	**2.3**	32,864	2.4	145.0
Total	**3,446,588**	**100%**	1,317,069	100%	

Management Discussion and Analysis



Note:

(1) East China includes Shanghai, Jiangsu, Zhejiang, Anhui, Shandong, Jiangxi and Fujian.

(2) South China includes Hubei, Hunan, Henan, Guangxi, Guangdong and Hainan.

(3) Southwest China includes Sichuan, Guizhou, Tibet, Yunnan and Chongqing.

(4) Northeast China includes Heilongjiang, Liaoning and Jilin.

(5) North China includes Tianjin, Hebei, Shanxi, Beijing and Inner Mongolia.

(6) Northwest China includes Shaanxi, Ningxia, Gansu, Qinghai and Xinjiang.

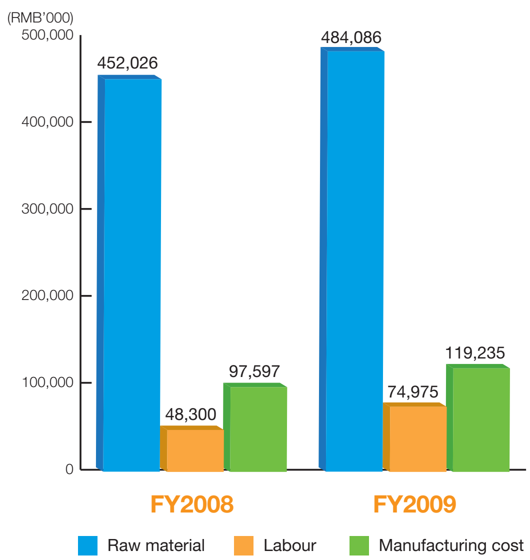
Management Discussion and Analysis

Cost of sales

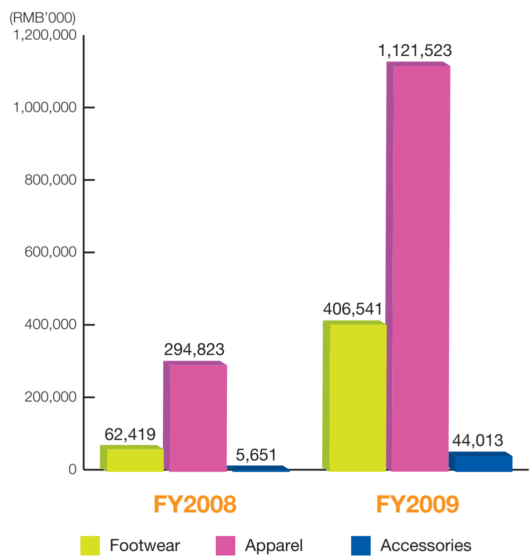
The following table sets forth a breakdown of cost of sales for 361° products (excluding the cost of sales related to the sales of raw materials) during the year:

	For the financial year ended 30 June			
	2009		2008	
	RMB'000	**% of total costs of sales**	RMB'000	% of total costs of sales
361° Products				
Footwear (internal production)				
Raw materials	**484,086**	**21.6**	452,026	47.0
Labour	**74,975**	**3.3**	48,300	5.0
Manufacturing costs	**119,235**	**5.3**	97,597	10.2
Subtotal for internal production	**678,296**	**30.2**	597,923	62.2
Outsourced Products				
Footwear	**406,541**	**18.1**	62,419	6.5
Apparel	**1,121,523**	**49.8**	294,823	30.7
Accessories	**44,013**	**1.9**	5,651	0.6
Subtotal for outsourced products	**1,572,077**	**69.8**	362,893	37.8
Cost of sales for 361°products	**2,250,373**	**100.0**	960,816	100.0

Cost of Sales for 361° Products Internal Production



Cost of Sales for 361° Products Outsourced Products



Management Discussion and Analysis

Cost of sales for 361° products increased by 134.2% from RMB960.8 million last year to RMB2,250.4 million during the current year, primarily as a result of an increase in sales of the 361° products. The raw materials costs for internal footwear production increased by 7.1% from RMB452.0 million last year to RMB484.1 million during the current year, primarily due to the increase in the number of pairs of footwear produced and the use of raw materials of higher quality which had higher unit cost. Labour costs for internal footwear production increased by 55.2% from RMB48.3 million last year to RMB75.0 million during the current year, primarily because the Group increased the number of employees engaged in internal production and incurred additional salary expenses due to salary increases. Internal footwear production manufacturing costs increased by 22.2% from RMB97.6 million last year to RMB119.2 million during the current year, primarily because the Group expanded its manufacturing operations and increased the number of staff involved in the production process. Outsourced production costs increased by 333.2% from RMB362.9 million last year to RMB1,572.1 million during the current year, primarily because the volume of footwear, apparel and accessories that the Group purchased from its contract manufacturers increased and the increased use of raw materials of higher quality for apparel and accessories.

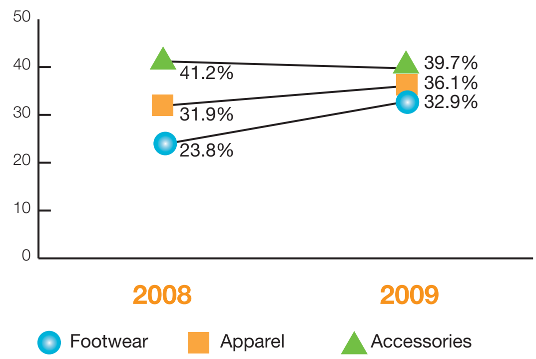
Substantially all of the Group's cost of sales was incurred for manufacturing of 361° products, consisting of footwear, apparel and accessories. In addition, a small portion of the Group's cost of sales incurred during the current year related to the sales of raw materials as well as sales of certain packaging materials.

Gross profit and gross profit margin

The following table sets forth a breakdown of the gross profit and gross profit margin for 361° products (excluding gross profit (loss) and gross profit (loss) margin related to sales of raw materials) during the current year:

	For the financial year ended 30 June			
	2009		2008	
	Gross profit RMB'000	**Gross profit margin %**	Gross profit RMB'000	Gross profit margin %
361° Products				
Footwear	**532,142**	**32.9**	205,792	23.8
Apparel	**633,413**	**36.1**	137,914	31.9
Accessories	**28,947**	**39.7**	3,962	41.2
Total	**1,194,502**	**34.7**	347,668	26.6

Gross Margin by Products



- Remarkable increase in turnover due to the upward movement in average wholesale selling price of 361° footwear and apparel as a result of:
  - Successful promotion of brand
  - Improvements in research & development and technology of products
  - Expansion of product range
  - Rapid development and expansion of the distribution network

Gross profit for 361° products increased by 243.6% from RMB347.7 million last year to RMB1,194.5 million during the current year, primarily due to the increase in sales. Gross profit margin for 361° products increased from 26.6% last year to 34.7% during the current year because the rate of increase of revenues outpaced the rate of increase in cost of sales, which was primarily due to the upward movement in average wholesale selling price of 361° footwear and apparel, which comprised the majority of 361° product sales, as a result of successful brand promotion, improved product design and the expansion of the range of product offerings. Gross profit margin for 361° products was also positively affected by the result of the shift in the product mix towards 361° apparel and accessories, which on average have a higher gross profit margin than the 361° footwear.

Selling and distribution expenses

Selling and distribution expenses increased by 250.0% from RMB106.4 million last year to RMB372.4 million during the current year, primarily as a result of a significant increase in the Group's advertising and marketing expenses in relation to television advertising and sponsorships. In addition, costs associated with conducting the Group's sales fairs increased because sale fairs were held in major cities such as Wuhan City and Xiamen City instead of the Company's headquarters in Jinjiang City as in the periods prior to 2008. During the current year, selling and distribution expenses represented 10.8% of the Group's total revenues, as compared to 8.1% of the Group's total revenues last year.

Administrative expenses

Administrative expenses increased by 125.4% from RMB39.6 million last year to RMB89.2 million during the current year, mainly resulting from an increase in impairment losses on doubtful debts, professional fees paid to an external design firm, as well as increases in salaries and welfare payments as the Group recruited more staff and the salary levels increased.

Income tax expense

During the current year, income tax expense of the Group amounted to RMB92.3 million (2008: RMB18.2 million) mainly because of the significant increase in net profit before tax, with an effective tax rate of 12.7% (2008: 9.2%).

Profit for the year

As compared to the 2007/08 year, profit for the current year increased from RMB179.0 million to RMB632.1 million, representing a growth of 253.2%. This was mainly attributed to a stable gross profit margin and increase in sales volume.

Liquidity and financial resources

During the current year, net cash inflow from operating activities of the Group amounted to RMB555.0 million (2008: RMB4.7 million). As at 30 June 2009, cash and cash equivalents, including bank deposits and cash in hand, and fixed deposits with original maturities not exceeding three months, amounted to RMB1,983.5 million, representing a net increase of RMB1,874.7 million as compared to the position as at 30 June 2008. The increase was attributed to the following items:

	For the financial year ended 30 June 2009 RMB'000
Net cash inflow generated from operating activities	**555,035**
Net capital expenditure	**(152,160)**
Dividends paid	**(76,742)**
Proceeds from new bank loans	**405,500**
Repayment of bank loans	**(288,000)**
Proceeds from new shares issued, net of issuing expenses	**1,479,172**
Other net cash outflow	**(48,154)**
Net increase in cash and cash equivalents	**1,874,651**

Management Discussion and Analysis

The Group has always pursued a prudent treasury management policy and is in a strong liquidity position with sufficient standby banking facilities to cope with daily operations and future development demands for capital. As at 30 June 2009, total available banking facilities of the Group amounted to RMB935.0 million, among which the amount of outstanding bank borrowings and bills payables were RMB267.0 million and RMB320.0 million respectively. The ratio of outstanding bank borrowings to equity holders' equity was 10.6% (2008: 47.1%).

During the current year, the Group has not entered into any interest swap arrangements to hedge against interest rate risks.

Foreign exchange risk

The Group mainly operates in the PRC with most of the transactions settled in Renminbi. Part of the Group's cash and bank deposits are denominated in Hong Kong Dollars. The Group also pays the declared dividends in Hong Kong Dollars.

During the current year, the Group did not hedge any exposure in foreign currency risk. Any substantial exchange rate fluctuation of foreign currencies against Renminbi may cause financial impacts on the Group.

Pledge of assets

As at 30 June 2009, the Group secured its bank borrowings by buildings with a carrying amount of RMB42.3 million (2008: Nil) and land with a carrying amount of RMB38.5 million (2008: RMB5.9 million).

Business Review

Sales and distribution network

Effective management of sales network is an integral element of the success of the Group. The Group converted its business model to an exclusive distributorship business model at the beginning of 2008, which encouraged the distributors to concentrate their resources on the wholesale distribution of 361° products of the Group and helped to expand the retail network.

As at 30 June 2009, the Group distributed its products through the network comprised of 30 distributors, all of which were independent third parties. The Group's distributors oversaw 3,277 361° authorized retailers. These authorized retailers, all of which were independent third parties, owned and managed a total of 6,055 361° authorized retail outlets. Collectively, the 361° retail network covers 31 provinces and more than 450 district-level cities, as well as more than 1,200 county-level cities in the PRC. The Group's distributors have direct contractual relationships with authorized retailers, but the Group does not. However, through the Group's distributors, the Group is able to indirectly impose certain operating requirements on 361° authorized retail outlets of authorized retailers, including compliance with the Group's standard operating procedures, uniform retail pricing policy, standard store display and layout, as well as customer service standards. In addition, the Group currently has 18 regional sales managers who are responsible for monitoring and assisting distributors and 361° authorized retail outlets in their respective geographic regions to ensure that the Group's distributors and authorized retailers in compliance with these operating requirements.

The number of 361° authorized retail outlets operated by the Group's authorized retailers has grown to 6,055 as of 30 June 2009, increasing by 1,423 outlets from 4,632 authorized retail outlets as of 30 June 2008. The Group will continue to expand and optimize the 361° retail network by working closely with the Group's distributors and leveraging their local resources and business networks.

The following table sets forth the geographic distribution of 361° authorized retail outlets operated by the Group's authorized retailers in the PRC under the 361° brand as of 30 June 2008 and 30 June 2009:

	As at 30 June			
	2009		2008	
	Number of 361° authorized retail outlets	**% of total number of 361° authorized retail outlets**	Number of 361° authorized retail outlets	% of total number of 361° authorized retail outlets
East China[1]	**1,863**	**30.8**	1,428	30.8
South China[2]	**1,320**	**21.8**	1,072	23.1
Southwest China[3]	**748**	**12.4**	475	10.3
Northeast China[4]	**866**	**14.3**	695	15.0
North China[5]	**920**	**15.2**	716	15.5
Northwest China[6]	**338**	**5.5**	246	5.3
Total	**6,055**	**100**	4,632	100

Notes:

(1) East China includes Shanghai, Jiangsu, Zhejiang, Anhui, Shandong, Jiangxi and Fujian.

(2) South China includes Hubei, Hunan, Henan, Guangxi, Guangdong and Hainan.

(3) Southwest China includes Sichuan, Guizhou, Tibet, Yunnan and Chongqing.

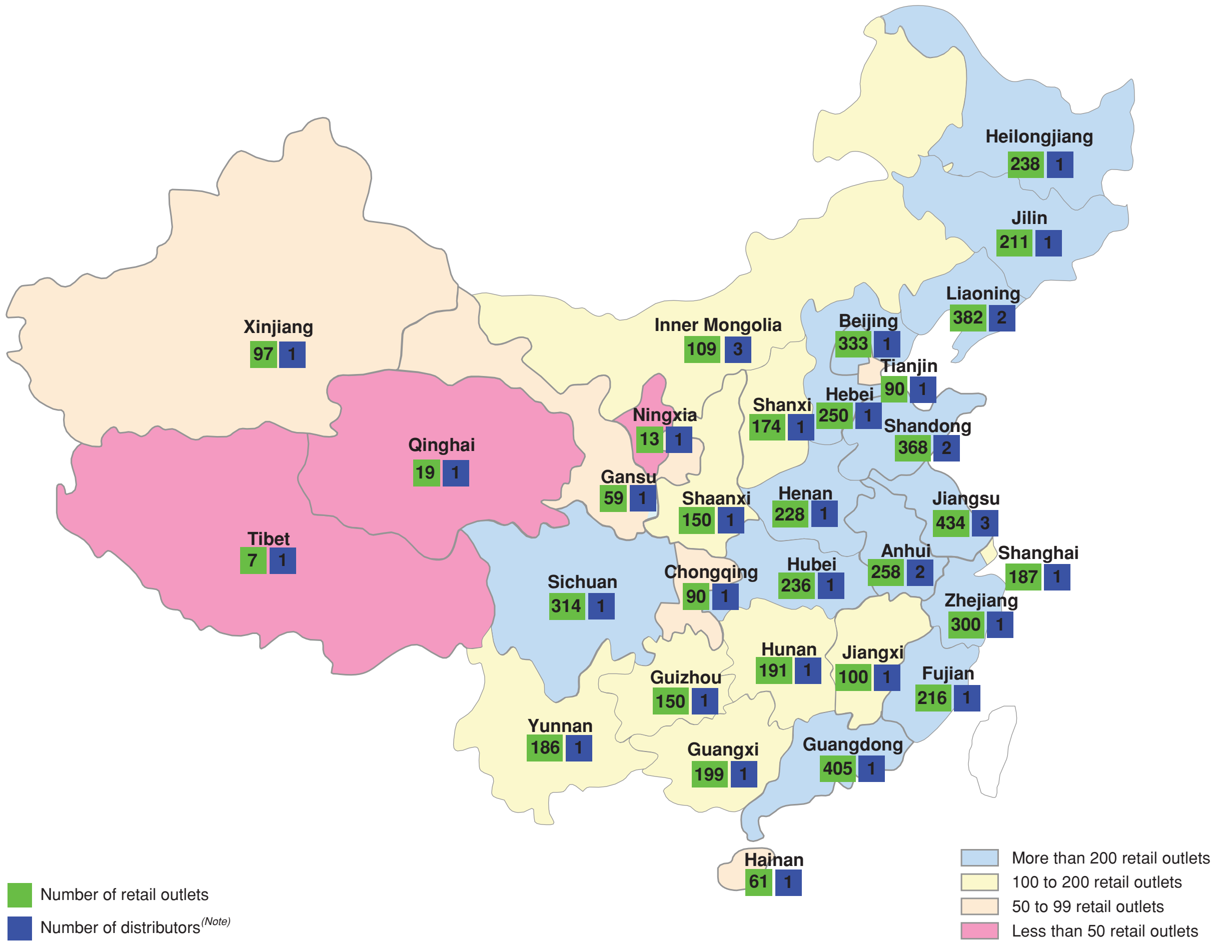
(4) Northeast China includes Heilongjiang, Liaoning and Jilin.

(5) North China includes Tianjin, Hebei, Shanxi, Beijing and Inner Mongolia.

(6) Northwest China includes Shaanxi, Ningxia, Gansu, Qinghai and Xinjiang.

Management Discussion and Analysis

Sales and Distribution



Note:

18 distributors have been granted exclusivity over one province, autonomous region or municipality; 6 distributors have been granted exclusivity over one or more areas within a province; and the remaining 6 distributors have been granted exclusivity over more than one province, autonomous region or municipality due to their local resources and business network in those provinces or areas.

Brand promotion and marketing

The Group's marketing and promotion strategies are important components of the Group's success. As the Group's success ultimately depends on the acceptance of 361° brand by consumers, the Group's brand promotion and marketing strategy has been focusing on developing the 361° brand into a sportswear brand that can be easily identified and associate with high performance, innovative and stylish sportswear products. This goal has been promoted through all of the Group's advertising activities (including print, billboard, bus, internet and television, retail sales and promotions, promotional events and activities) and marketing campaigns.

Management Discussion and Analysis

The Group's marketing strategy includes all aspects of the Group's product integration and strives to communicate the spirit of its brand to targeted groups as well as showcase the functionality, technological innovation and unique design style of the 361° products. The Group's marketing strategy involved engaging of excellent resources and theme-based marketing promotions, such as sponsorship of international and national sporting events and high-end media resources: the Group was appointed as a Guangzhou 2010 Asian Games Sportswear Prestige Partner, and became a strategic partner of CCTV's Sports Channel. The Group has also endeavored to promote the unique brand image, design and product functionality of the 361° products to appeal to a diverse group of consumers, through different marketing channels. The Group will continue to center on communicating 361°'s brand message to the Group's targeted consumer groups and promoting acceptance and reputation of 361° brand, in order to accelerate internationalization process.

Sponsorships of sports events and top athletes as spokespersons

The Group had also developed creative integrated marketing campaigns through its multi-year sponsorship of high quality sporting events and selection of top athletes as the Group's spokespersons, which can promote the Group's brand image. For each event, the Group created promotional campaigns with various spokespersons to generate market awareness and build momentum for the event and for the 361° brand. The Group developed customized products that are cross-marketed during the event's promotional campaigns, and also held promotional activities at the 361° authorized retail outlets to closely integrate the 361° brand, the sponsored sporting event and 361° product, to maximize cross-selling opportunities.

The Group believes that it effectively leverages its distribution network, brand marketing capabilities, product research & development resources to accelerate the recognization and acceptance of the 361° brand, as well as expand the market share of the Group's products.

The Group's cross-marketing sponsorship activities include the following:

- The Group sponsored the Xiamen International Marathon from 2006 to 2008. For this event the Group created a short advertisement film showcasing the marathon spirit and communicate 361° healthy running culture from different personal perspectives. The Group developed the Marathon I and Marathon II running shoes series for this event;

- The Group entered into an agreement with the Federation of University Sports of China to be the designated partner of the 361° China University Basketball Super League (361° 中國大學生籃球超級聯賽) from 2007 to 2010, and have designed basketball shoes and developed customized sportswear products for this event;

Management Discussion and Analysis

- The Group entered into an agreement with the Olympic Council of Asia (亞洲奧林匹克理事會) and the 16th Asian Games Organising Committee (第16屆亞運會組委會) to become the global official sponsor of Olympic Council of Asia and to be a Guangzhou 2010 Asian Games Sportswear Prestige Partner (廣州2010年亞運會體育服裝高級合作夥伴);

- The Group entered into an agreement with CCTV to be the title sponsor of China Table Tennis Super League from 2009 to 2013;

- The Group also entered into an agreement with CCTV, which required the reporters and journalists of CCTV Channel 5 (sports channel) to wear the Group's sportswear products from 2009 to 2013 on certain programs and games broadcasted on CCTV Channel 5;

- The Group entered into an agreement with Henan Century Central China Sports & Culture Co., Ltd. (河南世紀中原體育文化有限公司) to be a global top cooperative partner (全球頂級合作夥伴) and the sole designated sports footwear and apparel sponsor (唯一指定運動服、運動鞋贊助商) of the China Zhengkai Marathon (中國鄭開馬拉松) from 2009 to 2013; and

- The Group entered into an agreement with the Chinese Taipei Road Running Association (中華台北路跑協會) and Xiamen Television Broadcast Development Limited (廈門廣播電視產業發展有限公司) to be a global top cooperative partner (全球頂級合作夥伴) and the sole designated sports gear of the Jinmen Marathon (金門馬拉松) from 2009 to 2013.

Management Discussion and Analysis

Media advertising

The Group's media advertising activities include the following:

- The Group collaborated with CCTV5 to create Entertainment Basketball (361° 娛樂籃球), a national basketball talent show. This is the first large-scale reality sports TV competition show in the PRC, in which youngsters from different places in PRC participate in qualifying competitions to showcase their talents in various basketball skills, such as slam dunking and three-point shooting, and make it as the brightest new sign of the oriental street basketball culture;

- The Group won CCTV's live game broadcasting partner for 2007 and 2008 (中央電視台2007–2008體育賽事直播節目合作夥伴); and

- The Group cooperated with QQ.com (騰訊網), a large instant messaging service network in Asia, Sohu.com (搜狐) and Xiaonei.com (校內網) to promote internet sports programmes. In addition to the broad media coverage provided to the Group by its sponsorship activities, the Group also strategically select other forms of advertising that match 361° brand's image and market position. For instance, the Group has signed agreements to establish a cooperative relationship with a leading PRC-based basketball magazine, NBA Space (NBA 時空) as well as a leading sports newspaper in the PRC with the largest circulation, Sports Weekly (體壇週報). The Group's distributors also contribute to the marketing and promotion of 361° brand by conducting local promotions within their geographic areas. The Group encourages its distributors to spend a portion of their revenue on local advertising and sponsorship activities. To this end, the Group's distributor in Guangzhou sponsored the 2008 Beijing Olympics Diving Qualification Contest (2008年奧運會跳水選拔賽) and the distributor in Zhengzhou launched advertisements for the Group's 361° products on buses with routes within Zhengzhou City. The Group's advertising and marketing expenses for the 2007/08 year and 2008/09 year were RMB84.0 million and RMB291.5 million respectively, which represented approximately 6.4% and 8.5% of the Group's total revenue respectively for the corresponding years.

Management Discussion and Analysis

Product design and development

The Group has been integrated its research and development resources to develop high performance, innovative and stylish sportswear to suit consumers' tastes and satisfy professionals' demands.

The Group has established stand-alone dedicated research and development and design departments for the Group's footwear and apparel & accessories products which employ a total of 58 and 36 staff, respectively, as of 30 June 2009. The Group currently operates one laboratory for footwear and one laboratory for apparel, the primary role of which is quality control testing, though they also provide data to the Group's research and development department to assist it in developing new technologies and applications. The Group also co-operated with domestic and international research and development and product design companies with a view towards enabling the 361° products to have the desired function and application, and to be responsive to market developments.

The Group currently owns 6 patents related to the design and technologies of its footwear products. For example, the Group successfully developed sportswear technologies such as NFO Tech soles which increase shock absorbing characteristics of soles and are incorporated into the Group's Marathon I and Marathon II running shoes series, Hold Ground Tech which increases the gripping power of soles.

Employees and emoluments

As at 30 June 2009, the Group employed a total of 4,467 full time employees in the PRC which included management staff, technicians, salespersons and workers. For the year ended 30 June 2009, the Group's total expenses on the remuneration of employees was RMB105.8 million, representing 3.1% of the turnover of the Group. The Group's emolument policies are formulated based on the performance of individual employees, which will be reviewed periodically. Apart from the provident fund scheme (according to the provisions of the Mandatory Provident Fund Schemes Ordinance for Hong Kong employees) or state-managed retirement pension scheme (for the PRC employees) and medical insurance, discretionary bonuses and employee share options are also awarded to employees according to the assessment of individual performance.

Prospects

Due to effects of the recent turmoil in the international financial markets on the PRC economy, the PRC government has promulgated a series of measures to boost domestic demands. However, factors such as raw material prices and labor costs may rise during this critical time period and may affect the profitability of the Group.

Management Discussion and Analysis

It is anticipated that sports awareness enhanced by the success of the Beijing Olympic Games and the growing youth population would accelerate the growth of the sportswear market in the PRC. In the same time, the increase in the public's purchasing power in the PRC may lead to demand for better quality of life, including sports and entertainment. As such, the Group believes that there are significant development opportunities in the PRC sportswear market. However as all market players in the sportswear industry have been expanding aggressively through strengthening brand recognition and developing new products, it is believed that the competition within the industry would remain intense in future.

Facing these uncertainties, the Group will take appropriate steps to overcome challenges faced by the Group and strive to maintain and enhance the Group's profitability.

The Group has an experienced and professional management team. Coupled with the 361 brand's leading position in the PRC sportswear market, the Group endeavors to further penetrate its core markets in the PRC, to devote efforts in product development to create quality sportswear for the Group's customers, and as a result create value for the Company's shareholders and investors.

Corporate Social Responsibilities

During its rapid development, the Group has also devoted to its corporate social responsibilities with full effort, actively participating in a number of social charity activities for promoting education, helping the poor and rescuing victims in disasters. On the day following the "5.12 Wenchuen Earthquake" in 2008, the Group responded rapidly and has donated money and necessities of over RMB10 million to the disaster area, making a positive contribution to the community by solid actions. The Group also made charitable donations of RMB3.1 million to Chinese University Students Sports Affairs Committee for the 2008/09 year.

Report of the Directors

The directors have pleasure in submitting their annual report together with the audited financial statements for the year ended 30 June 2009.

Registered office and principal place of business in Hong Kong

361 Degrees International Limited ("the Company") is a company incorporated and domiciled in the Cayman Islands and has its registered office at Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, Cayman Islands and its principal place of business in Hong Kong at 43rd Floor, Gloucester Tower, The Landmark, 15 Queen's Road Central, Hong Kong respectively.

Principal activities

The principal activity of the Company is investment holding. The principal activities and other particulars of the Company's subsidiaries are set out in note 14 to the financial statements.

Major customers and suppliers

The information in respect of the sales and purchases attributable to the major customers and suppliers of the Company and its subsidiaries ("the Group") respectively during the financial year is as follows:

	Percentage of the Group's total	
	Sales	**Purchases**
The largest customer	20%	
Five largest customers in aggregate	49%	
The largest supplier		7%
Five largest suppliers in aggregate		22%

At no time during the financial year have the directors, their respective associates or any shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's issued share capital) had any interest in any of these major customers and suppliers.

Report of the Directors

Financial statements

The profit of the Group for the year ended 30 June 2009 and the state of the Company's and the Group's affairs as at that date are set out in the financial statements on pages 55 to 112.

Transfer to reserves

Profits attributable to shareholders, before dividends, of RMB632,111,000 (2008: RMB178,973,000) have been transferred to reserves. Other movements in reserves are set out in note 25 to the financial statements.

Dividends of RMB45,342,000 and RMB31,400,000 (2008: RMB Nil) were paid on 8 December 2008 and 11 June 2009 respectively. The directors recommend, subject to shareholders approval at the forthcoming annual general meeting, the payment of a final dividend of RMB6.5 cents per share for the year ended 30 June 2009.

Charitable donations

Charitable donations made by the Group during the financial year amounted to RMB3,313,000 (2008: RMB10,030,000).

Fixed assets

Details of the movements in fixed assets during the year are set out in note 13 to the financial statements.

Share capital

Details of the movements in share capital of the Company during the financial year are set out in note 25 to the financial statements. Shares were issued during the financial year upon incorporation, reorganisation and completion of the global offering and the capitalisation issue.

There were no purchases, sales or redemptions of the Company's listed securities by the Company or any of its subsidiaries during the year.

Pre-Emptive rights

There is no provision for pre-emptive rights under the Company's articles of association or the laws of Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

Report of the Directors

Directors

The directors during the financial year were:

Executive directors

Mr Ding Huihuang, Chairman	(appointed on 29 September 2008)
Mr Ding Wuhao, President	(appointed on 1 August 2008)
Mr Ding Huirong, Vice-president	(appointed on 29 September 2008)
Mr Wang Jiabi, Vice-president	(appointed on 29 September 2008)

Independent non-executive directors

Mr Mak Kin Kwong	(appointed on 29 September 2008)
Mr Sun Xianhong	(appointed on 29 September 2008)
Mr Liu Jianxing	(appointed on 29 September 2008)

In accordance with Article 83 of the Company's Articles of Association, any director appointed by the Board to fill a casual vacancy or as an additional director shall hold office only until the next following general meeting of the Company.

Pursuant to Article 84 of the Articles of the Association of the Company, at each annual general meeting, one-third of the directors for the time being shall retire from office by rotation.

By virtue of Articles 84 and 85 of the Articles of the Association of the Company, Mr Ding Wuhao, Mr Ding Huihuang and Mr Sun Xianhong will retire from office by rotation at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

Directors' service contracts

No director proposed for re-election at the forthcoming annual general meeting has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.

Directors' and chief executive's interests and short positions in shares, underlying shares and debentures

As at 30 June 2009, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance ("SFO")), which were required to be 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 chief executive were deemed or taken to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be recorded in the register therein, or were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by the directors of Company (the "Model Code") contained in the Rules of Governing the Lising of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") were as follows:

Long position in the Company

Name of director	Nature of interest	Number of shares (ordinary shares)	Percentage
Mr Ding Wuhao(1)	Interest in controlled corporation	375,000,000	18.75%
Mr Ding Huihuang(2)	Interest in controlled corporation	360,000,000	18.00%
Mr Ding Huirong(3)	Interest in controlled corporation	360,000,000	18.00%
Mr Wang Jiabi(4)	Interest in controlled corporation	187,500,000	9.375%

Notes:

(1) Mr Ding Wuhao is deemed to be interested in 375,000,000 shares of the Company held by Dings International Company Limited by virtue of it being controlled by Mr Ding Wuhao. He is the brother-in-law of both Mr Ding Huihuang and Mr Ding Huirong.

(2) Mr Ding Huihuang is deemed to be interested in 360,000,000 shares of the Company held by Ming Rong International Company Limited by virtue of it being controlled by Mr Ding Huihuang. He is the elder brother of Mr Ding Huirong and the brother-in-law of Mr Ding Wuhao.

(3) Mr Ding Huirong is deemed to be interested in 360,000,000 shares of the Company held by Hui Rong International Company Limited by virtue of it being controlled by Mr Ding Huirong. He is the brother of Mr Ding Huihuang and the brother-in-law of Mr Ding Wuhao.

(4) Mr Wang Jiabi is deemed to be interested in 187,500,000 shares of the Company held by Jia Wei International Co., Ltd. by virtue of it being controlled by Mr Wang Jiabi.

Apart from the foregoing, as at 30 June 2009, none of the directors or chief executive of the Company or any of their spouses or children under eighteen years of age had or was deemed to have any interests or short position in the shares, underlying shares or debentures of the Company, or any of its holding companies, subsidiaries or other associated corporations (within the meaning of Part XV of the SFO), which had been recorded in the register maintained by the Company pursuant to section 352 of the SFO or which had been notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

At no time was the Company, or any of its holding companies or subsidiaries a party to any arrangements to enable any director and chief executive of the Company (including their spouses and children under 18 years of age) to hold any interest or short positions in the shares or underlying shares in, or debentures of, the Company or its associated corporations (within the meaning of Part XV of the SFO).

Share option schemes

Pre-IPO Share Option Scheme

The Company has adopted a Pre-IPO Share Option Scheme on 10 June 2009 for the purpose of giving its employees, advisors, consultants and business partners an opportunity to have a personal stake in the Company and help to motivate them to optimise their future performance and efficiency to the Group and/or to reward them for their past contributions, to attract and retain or otherwise maintain on-going relationships with such employees, advisors, consultants and business partners who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group. Options to subscribe for an aggregate of 20,380,000 shares were granted to 10 members of the senior management, 58 employees of the Group and 23 shareholders and members of senior management of the Group's distributors on 10 June 2009. The exercise price per share is HK$2.89, being a discount of 20% to the final offer price of the share under the gobbling offering. Each grantee of options under the Pre-IPO Share Option Scheme was required to pay the Company HK$1.0 upon acceptance of the grant on or before 28 days after the offer date.

No further options would be granted under the Pre-IPO Share Option Scheme on or after listing of the Company on the Stock Exchange on 30 June 2009. All options granted under the Pre-IPO Share Option Scheme can only be exercised in the following manners and, in any event, cannot be exercised for a period of twelve months from 30 June 2009:

Exercise period maximum percentage of options exercisable

	Number of options '000	Exercise conditions	Percentage of options exercisable
Options granted to employees:			
— on 10 June 2009	6,114	One year from the date of listing of the Company's shares	30%
— on 10 June 2009	6,114	Two years from the date of listing of the Company's shares	30%
— on 10 June 2009	8,152	Three years from the date of listing of the Company's shares	40%
	20,380		100%

Accordingly, there was no exercise of any of the options granted under the Pre-IPO Share Option Scheme for the year ended 30 June 2009.

The options period shall commence on 30 June 2010 and expire on 30 June 2015.

Share Option Scheme

The Company has adopted a Share Option Scheme on 10 June 2009 for the purpose of motivating eligible persons to optimize their future contributions to the Group and/or reward them for their past contributions, attracting and retaining or otherwise maintaining on-going relationships with such eligible persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group.

The maximum number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of the Group shall not in aggregate exceed 10% of the total number of shares in issue at 30 June 2009, i.e. 200,000,000 shares. No options may be granted to any participant of the Share Option Scheme such that the total number of shares issued and to be issued upon exercise of the options granted and to be granted to that person in any 12-month period up to the date of the latest grant exceeds 1% of the Company's issued share capital from time to time.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as determined by the Board and not exceeding 10 years from the date of the grant under the Share Option Scheme. There is no minimum period for which an option must be held before it can be exercised. Participants of the Share Option Scheme are required to pay the Company HK$1.0 upon acceptance of the grant on or before 28 days after the offer date. The exercise price of the options is determined by the Board in its absolute discretion and shall not be less than whichever is the highest of:

(a) the nominal value of a share;

(b) the closing price of a share as stated in the Hong Kong Stock Exchange's daily quotations sheets on the offer date; and

(c) the average closing price of a share as stated in the Hong Kong Stock Exchange's daily quotation sheets for the five Business Days immediately preceding the offer date.

The Share Option Scheme shall be valid and effective for a period of 10 years from 30 June 2009, after which no further options will be granted or offered.

No options have been granted under the Share Option Scheme up to 30 June 2009.

Information on the accounting policy for share options granted and the weighted average value per option is provided in notes 2(l)(ii) and 23 to the financial statements respectively.

Apart from the foregoing, at no time during the year was the Company, or any of its holding companies or subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Substantial shareholders' and other persons' interests and short positions in shares and underlying shares

As at 30 June 2009, so far as is known to any director or chief executive of the Company, the persons (other than the directors and the chief executive of the Company) who had interests or short positions 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 directly or indirectly, interested in 10% of more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group were as follows:

Name of shareholders	*Note*	Long position in ordinary shares held	Percentage of total issued shares
Dings International Company Limited	(1)	375,000,000	18.75%
Ming Rong International Company Limited	(2)	360,000,000	18.00%
Hui Rong International Company Limited	(3)	360,000,000	18.00%
Jia Wei International Co., Ltd.	(4)	187,500,000	9.375%
Jia Chen International Co., Ltd.	(5)	187,500,000	9.375%

Notes:

1. The entire issued share capital of Dings International Company Limited is owned by Mr Ding Wuhao, an executive director and the president of the Company. Mr Ding Wuhao is the brother-in-law of Mr Ding Huihuang and Mr Ding Huirong.
2. The entire issued share capital of Ming Rong International Company Limited is owned by Mr Ding Huihuang, an executive director and the chairman of the Company. Mr Ding Huihuang is the brother-in-law of Mr Ding Wuhao and the brother of Mr Ding Huirong.
3. The entire issued share capital of Hui Rong International Company Limited is owned by Mr Ding Huirong, an executive director. Mr Ding Huirong is the brother-in-law of Mr Ding Wuhao and the brother of Mr Ding Huihuang.
4. The entire issued share capital of Jia Wei International Co., Ltd. is owned by Mr Wang Jiabi, an executive director. Mr Wang Jiabi is the brother of Mr Wang Jiachen.
5. The entire issued share capital of Jia Chen International Co., Ltd. is owned by Mr Wang Jiachen, who is the brother of Mr Wang Jiabi.

Sufficiency of public float

Based on the information that is publicly available to the Company and within the knowledge of the directors of the Company as at the date of this annual report, the directors of the Company are satisfied that the Company has maintained the prescribed minimum public float under the Listing Rules.

Report of the Directors

Directors' interests in contracts

No contract of significance to which the Company, or any of its holding companies or subsidiaries was a party, and in which a director of the Company had a material interest, subsisted at the end of the year or at any time during the year.

Directors' interests in competing business

As at 30 June 2009, none of the directors or their respective associates had any business or interests in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group. Please also refer to the paragraph headed "Compliance with the Deed of Non-competition" below.

Compliance with the Deed of Non-competition

Each of Mr Ding Wuhao, Dings International Company Limited, Mr Ding Huihuang, Ming Rong International Company Limited, Mr Ding Huirong and Hui Rong International Company Limited (collectively the "Covenantors" and each a "Covenantor") confirmed that, as at 30 June 2009, it is in compliance with the terms of the deed of non-competition ("Deed of Non-competition") dated 10 June 2009 signed by each of them in favour of the Group.

To monitor the compliance of the terms of the Deed of Non-competition by the Covenantors, the independent non-executive directors have reviewed, among others, the business activities undertaken by the Covenantors (if any) outside of the Group. Based on the result of such review, the independent non-executive directors are satisfied that the Covenantors have complied with the terms of the Deed of Non-competition for the financial year ended 30 June 2009.

Bank loans and other borrowings

Particulars of bank loans and other borrowings of the Group as at 30 June 2009 are set out in note 19 to the financial statements.

Financial summary

A summary of the results and of the assets and liabilities of the Group is set out on pages 7 and 8 of the annual report.

Retirement schemes

The Group operates a Mandatory Provident Fund Scheme ("the MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF Scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000. Contributions to the plan vest immediately.

The employees of the subsidiaries in the People's Republic of China are members of the retirement schemes operated by the local authorities. The subsidiaries are required to contribute a certain percentage of their payroll to these schemes to fund the benefits. The only obligation of the Group with respect to these schemes is the required contributions under the schemes.

The Group's total contributions to retirement schemes charged to the income statement during the year ended 30 June 2009 amounted to RMB3,142,000 (2008: RMB315,000).

Confirmation of independence

The Company has received from each of the independent non-executive directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers all the independent non-executive directors to be independent.

Code on Corporate Governance Practices

The directors are of the opinion that the Group has complied with the requirements of all code provisions of the Code on Corporate Governance Practices in Appendix 14 of the Listing Rules during the financial year.

Directors' Securities Transactions

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules. Upon enquiry by the Company, all the directors of the Company have confirmed that they have complied with the required standards set out in the Model Code during the year ended 30 June 2009.

Audit Committee

The Audit Committee has reviewed with management and the external auditor the accounting principles and policies adopted by the Group and the audited annual consolidated financial statements for the year ended 30 June 2009.

Auditors

KPMG retire and being eligible, offer themselves for reappointment. A resolution for the reappointment of KPMG as auditors of the Company is to be proposed at the forthcoming annual general meeting.

By order of the board

DING HUIHUANG
Chairman
Hong Kong, 22 September 2009


OPEN
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361°


361°
多一度热爱
我愿意
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Corporate Governance Report

The Company was a private company for most of the year under review as it was only listed on the Main Board of the Stock Exchange on 30 June 2009. Upon the listing of the Company, the Company has complied with the vast majority of the code provisions of the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 to the Listing Rules.

In accordance with the requirement of the Listing Rules, the Company has established an audit committee with defined terms of reference and appointed a chief financial controller to oversee the financial reporting procedures and internal control of the Group. The Company has also established a nomination committee and a remuneration committee with defined terms of reference.

Since the listing of the shares of the Company on the Main Board of the Stock Exchange on 30 June 2009, all code provisions set out in the Code were fulfilled by the Company except that, as the Company was listed on the Stock Exchange on 30 June 2009, no audit committee meeting of the Company has been held during the financial year ended 30 June 2009, and deviated from code provision C3.3(e)(i) of the CG Code. The first audit committee meeting of the Company was held on 22 September 2009, which was after the year under review. Going onward, the Company will convene audit committee meeting at least once a year in compliance with code provision C3.3(e)(i) of the CG Code.

Compliance with The Model Code for Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules as its own code of conduct for securities transactions. Having made specific enquiries of all Directors, all Directors confirmed that they had complied with the required standards set out in the Model Code for the year under review.

Board of Directors

The overall management of the Group's business is vested in the Board. Key responsibilities include formulation of the Group's overall strategies and policies, setting of performance targets, evaluation of business performance and oversight of management.

As at 30 June 2009, the Board comprises four executive Directors and three independent non-executive Directors. Biographical details of the Directors and the relationships between the Directors (if any) are set out in the section headed "Directors and Senior Management" of this annual report.

Brief details of the attendance of the board meetings held during the year under review were summarized as follows:

	Board Meeting *Note 1*	Audit Committee *Note 2*	Remuneration Committee *Note 2*	Nomination Committee *Note 2*
Executive Directors				
Mr. Ding Huihuang (Chairman)	9/9	N/A	N/A	N/A
Mr. Ding Wuhao (President)	9/9	N/A	N/A	N/A
Mr. Ding Huirong (Vice President)	7/9	N/A	N/A	N/A
Mr. Wang Jiabi (Vice President)	7/9	N/A	N/A	N/A
Independent Non-executive Directors				
Mr. Mak Kin Kwong	2/9	N/A	N/A	N/A
Mr. Sun Xianhong	2/9	N/A	N/A	N/A
Mr. Liu Jianxing	2/9	N/A	N/A	N/A

Note:

1. Number of meetings attended/(number of meetings held).
2. Audit Committee, Remuneration Committee and Nomination Committee were established on 10 June 2009 and the Company was listed on the Stock Exchange on 30 June 2009. Therefore, for the year ended 30 June 2009, no meeting of such committees has been held.

The composition of the Board is well balanced with the Directors having sound industry knowledge, extensive corporate and strategic planning experience and/or expertise relevant to the business of the Group. The executive Directors and independent non-executive Directors bring a variety of experience and expertise to the Company. In determining the independence of the independent non-executive Directors, the Board follows the requirements set out in the Listing Rules. The Company has received from each of the independent non-executive directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers all the independent non-executive directors to be independent.

Mr. Mak Kin Kwong, an independent non-executive director, is also an independent non-executive director of two other companies listed on the Stock Exchange, which are competing with the Group or being regarded as potentially competing with the Group, Mr. Mak confirms that he is fully aware of his fiduciary duties owing to the shareholders of the Company and the respective companies in his capacities as directors of each such company and his duty to avoid conflicts of interests in carrying out his duties as a director of such companies. Mr. Mak will fulfil his statutory and fiduciary duty to act honestly and in good faith with a view to achieving the best interests of the Company and to act in accordance with the memorandum and articles of association of the Company. He will exercise caution, declare interests and be abstained from discussion and voting when necessary should a conflict of interest exist.

The Roles of The Chairman and Chief Executive Officer

The divisions of responsibilities between the Chairman of the Board, Mr. Ding Huihuang, and the President, Mr. Ding Wuhao, who effectively performs the functions of the Chief Executive Officer of the Group, are clearly defined and have been approved by the Board. Mr. Ding Wuhao is the brother-in-law of Mr. Ding Huihuang.

The Chairman leads the Board in the determination of its strategy and in the achievement of its objectives. He is responsible for organising the business of the Board, ensuring its effectiveness and setting its agenda but not involved in the day-to-day business of the Group.

The President is directly in charge of the daily operations of the Group and are accountable to the Board for the financial and operational performance of the Group.

Appointments, Re-Election and Removal of Directors

Each of executive Directors has entered into a service contract with the Company for an initial term of three years commencing from 30 June 2009, subject to termination in accordance with the provisions of the service contract or by either party giving the other not less than three months' prior written notice.

Each of independent non-executive Directors has entered into a service contract with the Company for an initial term of three years from their respective dates of appointment, subject to termination in accordance with the provisions of the service contract or by either party giving the other not less than three months' prior written notice.

In accordance with the Company's articles of association, each year, one third of the Directors (including executive Directors and independent non-executive Directors) for the time being will retire from office by rotation provided that every Director shall be subject to retirement by rotation at least once every three years at the general meeting.

Board Committees

As an integral part of good corporate governance practices, the Board established the following Board committees to oversee particular aspects of the Group's affairs. Each of these committees comprises entirely independent non-executive Directors who have invited to serve as members. These committees are governed by the respective written terms of reference approved by the Board.

Audit Committee

The audit committee of the Company ("Audit Committee") was established on 10 June 2009 with written terms of reference in compliance with the Code. The Audit Committee comprises three members, all are independent non-executive Directors, namely Mr. Mak Kin Kwong, Mr. Sun Xianhong and Mr. Liu Jianxing. Mr. Mak Kin Kwong is the Chairman of the Committee.

The Audit Committee has reviewed the Group's consolidated financial statements for the year ended 30 June 2009, including the accounting principles and practice adopted by the Group.

The primary duties of the Audit Committee are mainly to review the material investment, capital operation an material financial system of our Company; to review the accounting policy, financial position and financial reporting procedures of our Company; to communicate with external audit firms; to assess the performance of internal financial and audit personnel; and to assess the internal controls of the Company.

Since the Audit Committee was only established on 10 June 2009, the Audit Committee did not hold any meeting during the year under review.

Remuneration Committee

The remuneration committee of the Company ("Remuneration Committee") was established on 10 June 2009 with written terms of reference in compliance with the Code. The Remuneration Committee comprises three members, namely Mr. Wang Jiabi, Mr. Sun Xianhong and Mr. Liu Jianxing. Mr. Wang Jiabi is the Chairman of the Remuneration Committee and the other two are independent non-executive Directors.

The primary duties of the Remuneration Committee are to review the terms of the remuneration package of each Director and member of senior management and making recommendations to the Board regarding any adjustment thereof. No Director shall participate in any discussion about his or her own remuneration.

The emolument policy of the employees of the Group is determined on the basis of their merit, qualifications and competence.

The emolument of the Directors are recommended by the Remuneration Committee, having regard to the Company's operating results, individual performance, experience, responsibility, workload and time devoted to the Company and comparable market statistics. Each of the executive Directors is entitled to a basic salary which is reviewed annually. In addition, each of the executive Directors may receive a discretionary bonus as the Board may recommend, the aggregate amount for all executive Directors shall not exceed 5% of the audited consolidated net profits after tax of the Group for the relevant financial year. Such amount has to be approved by the Remuneration Committee.

Since the Remuneration Committee was only established on 10 June 2009, the Remuneration Committee did not hold any meeting during the year under review.

Nomination Committee

The nomination committee of the Company ("Nomination Committee") was established on 10 June 2009 with written terms of reference in compliance with the Code. The Nomination Committee comprises three members, namely Mr. Ding Wuhao, Mr. Mak Kin Kwong and Mr. Liu Jianxing. Mr. Ding Wuhao is the Chairman of the Nomination Committee and the other two members are independent non-executive Directors.

The primary duties of the Nomination Committee are to make recommendations to the Board regarding candidates to fill vacancies on the Board.

Since the Nomination Committee was only established on 10 June 2009, the Nomination Committee did not hold any meeting during the year under review.

Directors' Responsibility for Financial Statements

The Directors acknowledge their responsibility to prepare the financial statements for each financial year which give a true and fair view of the state of affairs of the Group. However, the above statement should be read in conjunction with, but distinguished from, the independent auditor's report in the section headed "Independent Auditor's Report" which acknowledges the reporting responsibilities of the Group's auditor.

Auditors' Remuneration

During the year ended 30 June 2009, the remuneration paid or payable to the Group's auditors, KPMG, in respect of their audit and non-audit services are as follows:

Initial public offering	HK$8,180,000
Statutory audit services	HK$800,000
Non-audit services	HK$1,088,124
Total	**HK$10,068,124**

During the year, KPMG provided internal control review services to the Group in connection with the Group's preparation of listing, which is non-audit service by nature, at a fee of HK$1,088,124.

Internal Control

The Board acknowledges its responsibility to ensure that sound and effective internal control systems are maintained so as to safeguard the Group's assets and the interest of shareholders. The Board has developed its systems of internal control and risk management and is also responsible for reviewing and maintaining an adequate internal control system to safeguard the interests of the shareholders and the assets of the Company.

During the year, the Board has conducted reviews of the internal control system of the Company and considered the internal control system of the Company has implemented effectively. External consultants were hired to assist the Board to perform high-level review of internal control systems for selected business operations and processes. Such review covered financial, compliance and operational controls as well as risk management mechanisms.

Communication with Shareholders

The Board recognizes the importance of maintaining clear, timely and effective communication with shareholders of the Company and investors. The Board also recognizes that effective communication with investors is the key to establish investor confidence and to attract new investors. Therefore, the Group is committed to maintaining a high degree of transparency to ensure the investors and the shareholders of the Company receiving accurate, clear, comprehensive and timely information of the Group by the publication of annual reports, interim reports, announcements and circular. The Company also publishes all corporate correspondence on the Company's website www.361sport.com. The Board maintain regular dialogues with institutional investors and analysts from time to time to keep them informed of the Group's strategy, operations, management and plans. The Directors and the members of the various board committee would attend and answer questions raised on the annual general meeting of the Company. Separate resolutions would be proposed at the general meeting on each substantially separate issue.

The chairman of the general meetings of the Company would explain the procedures for conducting poll before putting a resolution to vote. The results of the voting by poll would be declared at the meeting and published on the websites of the Stock Exchange and the Company respectively.

Shareholders may put forward their proposals or inquiries to the Board by sending their written request to the Company's correspondence address in Hong Kong.

Directors and Senior Management

DIRECTORS

Executive Directors

Mr. Ding Wuhao (丁伍號), aged 44, is an executive Director and the president of the Company. He is primarily responsible for the Group's overall strategies, planning and business development. He has approximately 14 years of experience in the PRC sportswear industry. Since December 2006, he has been a member of the Chinese People's Political Consultative Conference ("CPPCC") Fujian Province Jinjiang City Committee (中國人民政治協商會議福建省晉江市委員會). In October 2008, he received the award of the "2008 Most Socially Responsible Entrepreneur in China" (2008年度中國最具社會責任企業家) by the Annual Selection Organising Committee of China Human Resources Management (中國人力資源管理年度評選組委會). In May 2009, he received the "Contribution Award for China TV Sports Programmes" (中國體育電視貢獻獎) by CCTV Sports Channel (中央電視台體育頻道). Mr. Ding is the son-in-law of Mr. Ding Jiantong, and the brother-in-law of Mr. Ding Huihuang and Mr. Ding Huirong.

Mr. Ding Huihuang (丁輝煌), aged 43, is an executive Director and the chairman of the Company. He is primarily responsible for overall strategies, operation planning and footwear production. He has approximately 14 years of experience in the PRC sportswear industry. He was awarded the "Top Ten Outstanding Youths in China Industrial Economy" (中國工業經濟十大傑出青年) by the Organising Committee of China Industry Forum (中國工業論壇組委會) in January 2008 and the "Top Ten Outstanding Youth Entrepreneurs of Quanzhou City" (泉州市十大傑出青年企業家) jointly issued by 18 governmental and commercial institutions in Quanzhou City, Fujian Province, the PRC in February 2007. He has been a standing member of the third committee of Quanzhou City Shoe Commercial Association (泉州市鞋業商會) and a vice chairman of Fujian Province Shoe Industry Association (福建省鞋業行業協會) since January 2006 and January 2007 respectively. Mr. Ding is the elder brother of Mr. Ding Huirong and the brother-in-law of Mr. Ding Wuhao.

Mr. Ding Huirong (丁輝榮), aged 37, is an executive Director and a vice president of the Company. He is primarily responsible for financial management and infrastructure construction management of the Company, more specifically the construction of the new production facility and warehouse of the Group at the Wuli Industrial Park. He has approximately 14 years of experience in financial management. Mr. Ding is the younger brother of Mr. Ding Huihuang and the brother-in-law of Mr. Ding Wuhao.

Directors and Senior Management

Mr. Wang Jiabi (**王加碧**), aged 51, is an executive Director and a vice president of the Company. He is primarily responsible for the human resources and external public relationship. Mr. Wang has approximately 14 years of experience in the PRC sportswear industry. He enrolled in an EMBA programme offered by Peking University (北京大學) in September 2008. Mr. Wang is the elder brother of Mr. Wang Jiachen, one of the members of the senior management team.

Independent non-executive Directors

Mr. Mak Kin Kwong (**麥建光**), aged 47, is an independent non-executive Director of the Company. Mr. Mak has many years of experience in initial public offering, mergers and acquisitions and corporate finance. Mr. Mak is the managing director of Venfund Investment, a boutique investment banking firm specialising in cross-border mergers and acquisitions, corporate restructuring and international financial advisory services for clients in China, which he co-founded in late 2001. Mr. Mak is a graduate of the Hong Kong Polytechnic University and a fellow member of the Association of Chartered Certified Accountants, and the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and a member of the Institute of Chartered Accountants, in England and Wales.

Mr. Sun Xianhong (**孫先紅**), aged 46, is an independent non-executive Director of the Company. Mr. Sun has over 20 years of experience in the media and marketing industries. Since April 2002, he has been a member of the CPPCC of Huhhot City, Inner Mongolia Autonomous Region (中國人民政治協商會議內蒙古呼和浩特市委員會). Mr. Sun received his bachelor's degree in industrial autoimmunisation from Shanxi Mining College (山西礦業學院) in July 1985.

Mr. Liu Jianxing (**劉建興**), aged 34, is an independent non-executive Director of the Company. Mr. Liu has approximately three years of experience in macroeconomics and policy research. Mr. Liu is currently the deputy head of the research department of International Cooperation Centre of National Development and Reform Commission ("NDRC") (中華人民共和國國家發展和改革委員會). Mr. Liu received his bachelor's degree in management engineering from Nanchang University (南昌大學) in July 1997, a master's degree in national economics from Peking University (北京大學) in July 2002 and a doctor's degree in national economics from Peking University (北京大學) in July 2005.

Directors and Senior Management

SENIOR MANAGEMENT

Mr. Xia Youqun (**夏友群**), aged 40, is a vice president of the Group and is primarily responsible for assisting the president in the Group's overall operations. Mr. Xia has approximately 13 years of experience in marketing, brand management and retail marketing management in the PRC sportswear industry. He joined the Company in October 2003 as the head of marketing department and was promoted to be the operation head in July 2006. Mr. Xia received his master's degree in business administration from Beijing Zhong-xin College of Business Management (北京中新企業管理學院) in July 2005.

Mr. Chen Yongling (**陳永靈**), aged 35, is the head of capital operation department of the Group and is primarily responsible for the Group's overall financial management. He joined the Group in August 2005. Mr. Chen has approximately 13 years of experience in finance, operation and business management. Mr. Chen received his diploma in business management from Zhejiang University (浙江大學) in January 2007. Mr. Chen holds a qualification certificate for accounting (中國會計師) conferred by the Ministry of Finance of the PRC, a qualification certificate for finance (中國金融師) conferred by the Ministry of Human Resources and Social Security of the PRC (中華人民共和國人力資源和社會保障部), and received the Certificate of Qualification for International Certified Senior Accountant (國際註冊高級會計師) awarded by the International Profession Certification Association (國際認證協會).

Mr. Hou Zhaohui (**候朝輝**), aged 33, is the head of human resources and administration department of the Group and is primarily responsible for human resources management and administration. Mr. Hou has approximately 4 years of experience in the PRC sportswear industry. He joined the Group in January 2005. Mr. Hou received his bachelor's degree in science from Ocean University of Qingdao (青島海洋大學) in July 1998 and the master's degree in business administration from Beijing University of Posts and Telecommunications (北京郵電大學) in June 2004.

Mr. Zhu Geming (**朱各明**), aged 38, is the head of design department of the Group's footwear business and is primarily responsible for the overall management of the design and research and development of footwear products. He has approximately 15 years of experience in footwear research and development. Mr. Zhu received his diploma in technology and design for footwear from Jilin Second Light Industry School (吉林省二經工業學校) in July 1993.

Directors and Senior Management

Mr. Wang Zhiqian (王志謙), aged 37, is the head of the research and development department for the Group's footwear business. Mr. Wang has approximately 16 years of experience in the PRC sportswear industry. He joined the Group in October 2003. Mr. Wang received his diploma from Jilin Second Light Industry School (吉林省二輕工業學校) in July 1992.

Mr. Yang Guang (楊光), aged 42, is the head of design department of the Group's apparel business and is primarily responsible for the design and research and development of apparel. He has approximately 11 years of experience in the PRC apparel industry. He joined the Group in January 2005. Mr. Yang received his bachelor's degree in apparel design from Beijing Institute of Fashion Technology (北京服裝學院) in July 1990.

Ms. Zhao Jingli (趙京利), aged 51, is the head of sales department of the Group and is primarily responsible for the sales. She joined the Group in September 2006. Ms. Zhao received her bachelor's degree in business management in Economics Department of Beijing Normal University (北京師範大學) in July 1996.

Mr. Ling Jun (凌雋), aged 34, is the head of the Group's brand department and is primarily responsible for the Group's overall brand management. Mr. Ling has approximately 4 years of experience in brand management. He joined us in April 2008. He received his diploma in the advance program of study in business communication and management from California State University of Sacramento in September 2002. He received his master's degree in business administration from American National University in April 2003.

Mr. Li Xiang (李翔), aged 35, is the head of the equipment and accessories business of the Group and is primarily responsible for the overall management of equipment and accessories. Mr. Li joined the Group in October 2007. Mr. Li has approximately 11 years of experience in marketing and product management. Mr. Li received his bachelor's degree in art from Hua Zhong Normal University (華中師範大學) in September 1997.

Mr. Wang Jiachen (王加琛), aged 47, is a vice general manager of our footwear business and is primarily responsible for the daily operation of the Group's footwear production and the procurement of the soles. He has approximately 14 years of experience in footwear production management. He joined the Group in July 2003 and he is the younger brother of Mr. Wang Jiabi, an executive Director.

Directors and Senior Management

Ms. Choi Mun Duen (蔡敏端), aged 40, joined the Group in October 2008 and is the chief financial officer, an authorised representative and the company secretary of the Company. She has over 16 years of experience in auditing, finance and accounting. She received her bachelor's degree in accounting and finance from University of Glamorgan in the U.K. She is a certified public accountant of the HKICPA and a fellow member of the Association of Chartered Certified Accountants.

Independent Auditor's Report

KPMG

Independent auditor's report to the shareholders of 361 Degrees International Limited
(Incorporated in Cayman Islands with limited liability)

We have audited the consolidated financial statements of 361 Degrees International Limited ("the Company") set out on pages 55 to 112, which comprise the consolidated and Company balance sheets as at 30 June 2009, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 30 June 2009 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

Consolidated Income Statement

for the year ended 30 June 2009
(Expressed in Renminbi)

	Note	2009 RMB'000	2008 RMB'000
Turnover	4	**3,446,588**	1,317,069
Cost of sales		**(2,252,785)**	(969,041)
Gross profit		**1,193,803**	348,028
Other revenue	5	**8,061**	2,467
Other loss	5	**(56)**	(1,948)
Selling and distribution expenses		**(372,364)**	(106,409)
Administrative expenses		**(89,244)**	(39,595)
Profit from operations		**740,200**	202,543
Finance costs	6(a)	**(15,800)**	(5,371)
Profit before taxation	6	**724,400**	197,172
Income tax	7(a)	**(92,289)**	(18,199)
Profit for the year		**632,111**	178,973
Dividends payable to equity shareholders of the Company attributable to the year:	11		
Dividends declared during the year		**76,742**	—
Dividend proposed after the balance sheet date		**134,252**	—
		210,994	—
Earnings per share	12		
Basic (cents)		**42.1**	11.9
Diluted (cents)		**42.1**	N/A

The notes on pages 62 to 112 form part of these financial statements.

Consolidated Balance Sheet

at 30 June 2009
(Expressed in Renminbi)

	Note	**2009 RMB'000**	2008 RMB'000
Non-current assets			
Fixed assets	*13*		
— Property, plant and equipment		**246,627**	88,655
— Interests in leasehold land held for own use under operating leases		**86,545**	23,425
		333,172	112,080
Current assets			
Inventories	*15*	**83,637**	181,056
Trade and other receivables	*16*	**1,591,795**	673,767
Amounts due from related parties	*21*	**—**	38,017
Pledged bank deposits	*17*	**86,700**	38,500
Cash and cash equivalents	*18*	**1,983,546**	108,895
		3,745,678	1,040,235
Current liabilities			
Bank loans	*19*	**267,000**	149,500
Trade and other payables	*20*	**1,227,297**	534,713
Amounts due to a shareholder of the Company	*21*	**—**	142,149
Current taxation	*24(a)*	**64,851**	4,783
		1,559,148	831,145
Net current assets		**2,186,530**	209,090

Consolidated Balance Sheet

at 30 June 2009
(Expressed in Renminbi)

	Note	2009 RMB'000	2008 RMB'000
Total assets less current liabilities		**2,519,702**	321,170
Non-current liabilities			
Deferred tax liabilities	*24(b)*	**9,504**	3,584
NET ASSETS		**2,510,198**	317,586
CAPITAL AND RESERVES	*25(a)*		
Share capital		**176,340**	82,724
Reserves		**2,333,858**	234,862
TOTAL EQUITY		**2,510,198**	317,586

Approved and authorised for issue by the Board of Directors on 22 September 2009

DING WUHAO
Director

DING HUIHUANG
Director

The notes on pages 62 to 112 form part of these financial statements.

Balance Sheet

at 30 June 2009
(Expressed in Renminbi)

	Note	RMB'000
Non-current assets		
Investments in subsidiaries	*14*	**1**
Current assets		
Amount due from a subsidiary	*21*	**143,223**
Cash and cash equivalents	*18*	**1,527,991**
		1,671,214
Current liabilities		
Amounts due to subsidiaries	*21*	**20,660**
Other payables	*20*	**34,635**
		55,295
Net current assets		**1,615,919**
NET ASSETS		**1,615,920**
CAPITAL AND RESERVES	*25(b)*	
Share capital		**176,340**
Reserves		**1,439,580**
TOTAL EQUITY		**1,615,920**

Approved and authorised for issue by the Board of Directors on 22 September 2009

DING WUHAO
Director

DING HUIHUANG
Director

The notes on pages 62 to 112 form part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 30 June 2009
(Expressed in Renminbi)

	Note	2009 RMB'000	2008 RMB'000
Total equity at 1 July 2008/2007		**317,586**	127,131
Net income recognised directly in equity:			
Exchange differences on translation of financial statements of operations outside People's Republic of China ("PRC")	*25*	**1,328**	11,482
Net profit for the year	*25*	**632,111**	178,973
Total recognised income and expense for the year		**633,439**	190,455
Dividends declared or approved during the year	*11*	**(76,742)**	—
Movements in equity arising from capital transactions:			
Shares issued upon incorporation	*25*	**1**	—
Shares issued under placing and public offering, net of issuing expenses	*25*	**1,479,172**	—
Increase in reserve arising on Reorganisation	*25*	**156,252**	—
Equity-settled share-based transactions	*25*	**490**	—
		1,635,915	—
Total equity at 30 June 2009/2008		**2,510,198**	317,586

The notes on pages 62 to 112 form part of these financial statements.

Consolidated Cash Flow Statement

for the year ended 30 June 2009
(Expressed in Renminbi)

	Note	2009 RMB'000	2008 RMB'000
Operating activities			
Profit before taxation		**724,400**	197,172
Adjustments for:			
— Depreciation	*6(c)*	**9,282**	4,600
— Amortisation of land lease premium for property held for own use	*6(c)*	**1,420**	435
— Finance costs	*6(a)*	**15,800**	5,371
— Interest income	*5*	**(1,691)**	(362)
— Loss on disposal of fixed assets	*5*	**56**	1,948
— Equity-settled share-based payment expenses	*6(b)*	**490**	—
— Foreign exchange adjustment		**1,328**	6,577
Operating profit before changes in working capital		**751,085**	215,741
Decrease/(increase) in inventories		**97,419**	(112,113)
Increase in trade and other receivables		**(917,471)**	(535,373)
Decrease in amounts due from related parties		**38,017**	68,529
Increase in trade and other payables		**612,287**	378,141
Cash generated from operations		**581,337**	14,925
Income tax paid		**(26,302)**	(10,191)
Net cash generated from operating activities		**555,035**	4,734
Investing activities			
Payment for purchase of fixed assets		**(152,160)**	(98,008)
Proceeds from disposal of fixed assets		**52**	2,059
Increase in pledged bank deposits		**(48,200)**	(25,900)
Interest received		**1,691**	362
Net cash used in investing activities		**(198,617)**	(121,487)

Consolidated Cash Flow Statement

for the year ended 30 June 2009
(Expressed in Renminbi)

	Note	2009 RMB'000	2008 RMB'000
Financing activities			
Proceeds from new bank loans		**405,500**	149,500
Repayment of bank loans		**(288,000)**	(60,000)
Proceeds from new shares issued, net of issuing expenses	*25*	**1,479,172**	—
Increase in amounts due to a shareholder of the Company		**14,103**	117,972
Interest paid		**(15,800)**	(5,371)
Dividends paid	*11*	**(76,742)**	—
Net cash generated from financing activities		**1,518,233**	202,101
Net increase in cash and cash equivalents		**1,874,651**	85,348
Cash and cash equivalents at 1 July 2008/2007		**108,895**	23,547
Cash and cash equivalents at 30 June 2009/2008	*18*	**1,983,546**	108,895

Notes:

Major non-cash transactions

(i) On 9 June 2009, amounts due to a shareholder of the Company totalling RMB156,252,000 were waived and recorded as a capital contribution.

(ii) Pursuant to the written resolution on 10 June 2009, the Company issued 1,499,990,000 shares of HK$0.10 each, by capitalisation of a sum of RMB132,254,000 standing to the credit of the share premium account.

The notes on pages 62 to 112 form part of these financial statements.

Notes to the Financial Statements

(Expressed in thousands of Renminbi unless otherwise indicated)

1 General information

361 Degrees International Limited ("the Company") was incorporated in the Cayman Islands on 1 August 2008. The Company and its subsidiaries (together referred to as "the Group") are principally engaged in manufacturing and sales of sporting goods, including footwear, apparel and accessories in the PRC. Pursuant to the Group Reorganisation ("the Reorganisation"), the Company acquired the issued shares of Sanliuyidu Holdings Company Limited by issuing shares to the common shareholders ("Controlling Shareholders") and become the holding company of the Group on 15 August 2008. Details of the Reorganisation are set out in the prospectus of the Company dated 18 June 2009.

The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited ("the Stock Exchange") on 30 June 2009.

The Group is regarded as a continuing entity resulting from the Reorganisation under common control and has been accounted for on the basis of merger accounting. The consolidated financial statements of the Group have been prepared as if the current group structure had been in existence throughout both years presented, or since the respective dates of incorporation or establishment of the group companies, rather than from the date when the Company became the holding company of the Group pursuant to the Reorganisation.

2 Significant accounting policies

(a) Statement of compliance

These financial statements has been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 30 June 2009 comprise the Company and its subsidiaries.

2 Significant accounting policies (Con't)

(b) Basis of preparation of the financial statements (Con't)

The consolidated financial statements are presented in Renminbi ("RMB"), rounded to the nearest thousand. The measurement basis used in the preparation of the financial statements is the historical costs basis.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 30.

(c) Basis of consolidation

The consolidated financial statements for the year ended 30 June 2009 include the financial statements of the Company and its subsidiaries.

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profit arising from intra-group transactions is eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see note 2(f)).

2 Significant accounting policies (Con't)

(c) Basis of consolidation (Con't)

(ii) Business combinations involving entities under common control

The consolidated financial statements incorporate the financial statements of the combining entities or businesses as if they had been combined from the date when the combining entities or business first came under the control of the controlling parties.

The net assets of the combining entities or business are recognised at the carrying values prior to the common control combination.

The consolidated financial statements include the results of each of the combining entities or business from the earliest date presented or since the date when combining entities or business first came under the control of the controlling parties, where this is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the consolidated financial statements are presented as if the entities or businesses had been combined at the previous balance sheet date or when they first came under control of the controlling parties, whichever is shorter.

(d) Property, plant and equipment

Items of property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 2(f)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initiate estimate, where relevant, of the cost of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 2(q)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

— Buildings situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 20 years after the date of completion.	
— Plant and machinery	5–10 years
— Motor vehicles	5 years
— Office equipment and other fixed assets	2–5 years

2 Significant accounting policies (Con't)

(d) Property, plant and equipment (Con't)

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(e) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight line basis over the period of the lease term of 50 year.

(f) Impairment of assets

(i) Impairment of trade and other receivables

Trade and other receivables that are stated at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becomes probable that the debtor will enter bankruptcy or other financial reorganisation; and
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

If any such evidence exists, any impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

2 Significant accounting policies (Con't)

(f) Impairment of assets (Con't)

(i) Impairment of trade and other receivables (Con't)

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses recognised in respect of trade debtors and bills receivable included within trade and other receivables whose recovery is considered doubtful but not remote are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, an impairment loss previously recognised no longer exists or may have decreased:

— property, plant and equipment;
— interest in leasehold land held for own use under operating leases; and
— investments in subsidiaries.

If any such indication exists, the asset's recoverable amount is estimated.

— *Calculation of recoverable amount*
The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

2 Significant accounting policies (Con't)

(f) Impairment of assets (Con't)

(ii) Impairment of other assets (Con't)

— *Recognition of impairment losses*

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

— *Reversals of impairment losses*

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(g) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(h) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts (see note 2(f)), except where the receivables are interest free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

2 Significant accounting policies (Con't)

(i) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(j) Trade and other payables

Trade and other payables are initially recognised at fair value and are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(k) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(l) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Contribution to appropriate local defined contribution retirement schemes pursuant to the relevant labour rules and regulations in the PRC are recognised as an expense in profit or loss as incurred, except to the extent that they are included in the cost of inventories not yet recognised as an expense.

(ii) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a share option reserve within equity. The fair value is measured at the grant date using the binomial lattice model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet exercise conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the exercise period, taking into account the probability that the options will exercise.

2 Significant accounting policies (Con't)

(l) Employee benefits (Con't)

(ii) Share-based payments (Con't)

During the exercise period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the share option reserve. On the vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the share option reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the share option reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

(m) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and credits.

All deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences includes that which will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax assets can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

2 Significant accounting policies (Con't)

(m) Income tax (Con't)

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

(i) in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

(ii) in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either;

— the same taxable entity; or

— different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(n) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

2 Significant accounting policies (Con't)

(n) Provisions and contingent liabilities (Con't)

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(o) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sale of goods

Revenue is recognised when the customer has accepted the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts and goods return.

(ii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(iii) Government grants

Government grants are recognised in the balance sheet initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are initially recognised as deferred income and subsequently recognised as revenue in profit or loss upon satisfaction of the conditions attaching to the grants.

(p) Translation of foreign currencies

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("functional currency"). The financial statements is presented in RMB, which is also the Company's presentation currency and functional currency.

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates.

2 Significant accounting policies (Con't)

(p) Translation of foreign currencies (Con't)

The results of operations outside the PRC are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into RMB at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly as a separate component of equity.

On disposal of an operation outside PRC, the cumulative amount of the exchange differences recognised in equity which related to that operation is included in the calculation of the profit or loss on disposal.

(q) Borrowing costs

Borrowing costs are expensed in profit or loss in the period in which they are incurred.

(r) Research and development and advertising

Expenditure on research and advertising activities is recognised as an expense in the period in which it is incurred.

(s) Related parties

For the purposes of the financial statements, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

2 Significant accounting policies (Con't)

(t) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

The Group operates in a single business segment, manufacturing and sales of sporting goods in the PRC. Accordingly, no segmental analysis is presented.

3 Changes in accounting policies

The HKICPA has issued the following new Interpretations and amendments to HKFRSs that are first effective for the current accounting period of the Group and the Company:

— HK(IFRIC) 11, *HKFRS 2 — Group and treasury share transactions*
— HK(IFRIC) 12, *Service concession arrangements*
— HK(IFRIC) 14, *HKAS 19, The limit on a defined benefit asset, minimum funding requirements and their interaction*
— Amendment to HKAS 39, *Financial instruments: Recognition and measurement,* and HKFRS 7, *Financial instruments: Disclosures — Reclassification of financial assets*

These HKFRS developments have had no material impact on the Group's financial statements as either they were consistent with accounting policies already adopted by the Group or they were not relevant to the Group's and the Company's operations.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 31).

(Expressed in thousands of Renminbi unless otherwise indicated)

4 Turnover

The principal activities of the Group are manufacturing and trading of sporting goods, including footwear, apparel and accessories in the PRC. Turnover represents the sales value of goods sold less returns, discounts and value added taxes and other sales taxes, which may be analysed as follows:

	2009	2008
	RMB'000	RMB'000
Footwear	**1,616,979**	866,134
Apparel	**1,754,936**	432,737
Accessories and others	**74,673**	18,198
	3,446,588	1,317,069

5 Other revenue and other loss

	2009	2008
	RMB'000	RMB'000
Other revenue		
Interest income	**1,691**	362
Government grants	**6,370**	2,105
	8,061	2,467
Other loss		
Loss on disposal of fixed assets	**(56)**	(1,948)

Government grants of RMB6,370,000 (2008: RMB2,005,000) were received from several local government authorities for the Group's contribution to local economies, of which the entitlement was unconditional and under the discretion of the relevant authorities.

The remaining government grants of RMB100,000 during the year ended 30 June 2008 were granted for subsidising the Group's research project in the PRC of which the entitlement was conditional. Grants were recognised as deferred income initially and credited as other revenue in profit or loss upon the satisfaction of the conditions attaching to the grants.

(Expressed in thousands of Renminbi unless otherwise indicated)

6 Profit before taxation

Profit before taxation is arrived at after charging:

		2009 RMB'000	2008 RMB'000
(a)	Finance costs:		
	Interest on bank borrowings wholly repayable within five years	**15,800**	5,371
(b)	Staff costs:		
	Contributions to defined contribution retirement plans	**3,142**	315
	Equity-settled share-based payment expenses (note 23)	**490**	—
	Salaries, wages and other benefits	**102,125**	70,949
		105,757	71,264
(c)	Other items:		
	Auditors' remuneration	**725**	50
	Amortisation of land lease premium	**1,420**	435
	Depreciation	**9,282**	4,600
	Impairment losses on trade and other receivables	**25,241**	8,901
	Operating lease charges in respect of properties	**3,250**	663
	Research and development costs*	**14,818**	3,639
	Cost of inventories**	**2,252,785**	969,041

* Research and development costs include RMB6,016,000 (2008: RMB772,000) relating to staff costs of employees in the research and development department, which amount is also included in the total staff costs as disclosed in note 6(b).

** Cost of inventories includes RMB85,926,000 (2008: RMB62,884,000) relating to staff costs and depreciation, which amounts are also included in the respective total amounts disclosed separately above or in note 6(b) for each of these types of expenses.

(Expressed in thousands of Renminbi unless otherwise indicated)

7 Income tax in the consolidated income statement

(a) Taxation in the consolidated income statement represents:

	2009 RMB'000	2008 RMB'000
Current tax — PRC income tax		
Provision for the year	**86,369**	13,270
Deferred tax		
Origination and reversal of temporary differences	**5,920**	4,929
	92,289	18,199

(i) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands and the British Virgin Islands.

(ii) No provision has been made for Hong Kong Profits Tax as the Group does not earn any income subject to Hong Kong Profits Tax during the year.

(iii) Pursuant to the income tax rules and regulations of the PRC, provision for PRC enterprise income tax is calculated based on a statutory rate of 25% of the assessable profits of the companies comprising the Group. During the year, certain PRC subsidiaries are subject to tax at 50% of the standard tax rates or fully exempt from income tax under the relevant tax rules and regulations.

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2009 RMB'000	2008 RMB'000
Profit before taxation	**724,400**	197,172
Notional tax on profit before taxation, calculated at the rates applicable in the jurisdictions concerned	**181,100**	48,987
Tax effect of non-deductible expenses	**4,624**	532
Tax effect of profits entitled to tax exemption in the PRC	**(93,435)**	(31,320)
Actual tax expense	**92,289**	18,199

(Expressed in thousands of Renminbi unless otherwise indicated)

8 Directors' remuneration

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	2009				
Name of directors	Fees RMB'000	Salaries, allowances and other benefits RMB'000	Contributions to retirement benefits schemes RMB'000	Discretionary bonus RMB'000	Total RMB'000
Executive directors					
Ding Wuhao	–	1,593	3	–	1,596
Ding Huihuang	–	1,270	3	–	1,273
Ding Huirong	–	1,270	3	–	1,273
Wang Jiabi	–	733	3	–	736
Non-executive directors					
Mak Kin Kwong	–	–	–	–	–
Sun Xianhong	–	–	–	–	–
Liu Jianxing	–	–	–	–	–
Total	–	4,866	12	–	4,878

	2008				
Name of directors	Fees RMB'000	Salaries, allowances and other benefits RMB'000	Contributions to retirement benefits schemes RMB'000	Discretionary bonus RMB'000	Total RMB'000
Executive directors					
Ding Wuhao	–	437	5	–	442
Ding Huihuang	–	389	5	–	394
Ding Huirong	–	274	3	–	277
Wang Jiabi	–	297	3	–	300
Non-executive directors					
Mak Kin Kwong	–	–	–	–	–
Sun Xianhong	–	–	–	–	–
Liu Jianxing	–	–	–	–	–
Total	–	1,397	16	–	1,413

During the year, no amount was paid or payable by the Group to the directors or any of the five highest paid individuals set out in note 9 below as an inducement to join or upon joining the Group or as compensation for loss of office.

(Expressed in thousands of Renminbi unless otherwise indicated)

9 Individuals with highest emoluments

Of the five individuals with highest emoluments, three (2008: four) are directors whose emoluments are disclosed in note 8. The aggregate of the emoluments in respect of the remaining two (2008: one) individuals are as follows:

	2009	2008
	RMB'000	RMB'000
Salaries and other emoluments	**4,241**	385
Equity-settled share-based payments	**41**	—
Contributions to retirement benefit scheme	**11**	5
	4,293	390
Number of senior management	**2**	1

The emoluments of the two (2008: one) individuals with the highest emoluments are within the following bands:

	2009	2008
	Number of individuals	Number of individuals
Nil to RMB1,000,000	**—**	1
RMB1,000,001 to RMB2,000,000	**1**	—
RMB2,000,001 to RMB3,000,000	**1**	—

(Expressed in thousands of Renminbi unless otherwise indicated)

10 Profit attributable to equity shareholders of the Company

The consolidated profit attributable to equity shareholders of the Company includes a profit of RMB57,186,000 which has been dealt with in the financial statements of the Company.

Reconciliation of the above amount to the Company's profit for the year:

	2009 **RMB'000**
Amount of consolidated profit attributable to equity shareholders dealt with in the Company's financial statements	**57,186**
Final dividends from subsidiary attributable to the profits of the previous financial years, approved and paid during the year	**155,754**
Company's profit for the year (note 25(b))	**212,940**

11 Dividends

Dividends payable to equity shareholders of the Company attributable to the year:

	2009 **RMB'000**	2008 RMB'000
Dividends declared during the year	**76,742**	—
Dividend proposed after the balance sheet date of RMB6.5 cents per share	**134,252**	—
	210,994	—

Dividends declared during the year represent dividends declared prior to listing of the Company. The rate of dividend per share is not presented for these dividends as it is not indicative of the rate at which future dividends will be declared.

The dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

(Expressed in thousands of Renminbi unless otherwise indicated)

12 Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB632,111,000 (2008: RMB178,973,000) and the weighted average number of shares in issue during the year of 1,501 million (2008: 1,500 million). The weighted average number of shares in issue during the years ended 30 June 2008 and 2009 is based on the assumption that 1,500 million shares were in issue as if the shares issued at the date the Company became the holding company of the Group were outstanding throughout the entire year.

Weighted average number of ordinary shares

	2009	2008
	'000	'000
Capitalisation upon legal establishment	**1,500,000**	1,500,000
Effect of shares issued upon placing and public offering on 30 June 2009	**1,370**	—
Weighted average number of ordinary shares at 30 June	**1,501,370**	1,500,000

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB632,111,000 and the weighted average number of ordinary shares of 1,502 million adjusted for the potential dilutive effect caused by the share options granted under Pre-IPO share option scheme (note 23). No disclosure of diluted earnings per share for the year ended 30 June 2008 has been made as there were no potential dilutive shares outstanding during that year.

Weighted average number of ordinary shares (diluted)

	2009
	'000
Weighted average number of ordinary shares at 30 June	**1,501,370**
Effect of deemed issue of shares under the Company's share option scheme for nil consideration (note 23)	**302**
Weighted average number of ordinary shares (diluted) at 30 June	**1,501,672**

(Expressed in thousands of Renminbi unless otherwise indicated)

13 Fixed assets

The Group

	Buildings RMB'000	Plant and machinery RMB'000	Office equipment and other fixed assets RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Sub-total RMB'000	Interests in leasehold land held for own use under operating leases RMB'000	Total RMB'000
Cost:								
At 1 July 2007	–	25,838	638	184	–	26,660	22,267	48,927
Additions	43,391	20,813	1,276	3,788	10,636	79,904	1,671	81,575
Disposals	–	(5,803)	–	–	–	(5,803)	–	(5,803)
At 30 June 2008	43,391	40,848	1,914	3,972	10,636	100,761	23,938	124,699
Accumulated depreciation and amortisation:								
At 1 July 2007	–	9,205	69	28	–	9,302	78	9,380
Provision for the year	26	3,845	191	538	–	4,600	435	5,035
Written back on disposals	–	(1,796)	–	–	–	(1,796)	–	(1,796)
At 30 June 2008	26	11,254	260	566	–	12,106	513	12,619
Net book value:								
At 30 June 2008	43,365	29,594	1,654	3,406	10,636	88,655	23,425	112,080

(Expressed in thousands of Renminbi unless otherwise indicated)

13 Fixed assets (Con't)

The Group (Con't)

	Buildings RMB'000	Plant and machinery RMB'000	Office equipment and other fixed assets RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Sub-total RMB'000	Interests in leasehold land held for own use under operating leases RMB'000	Total RMB'000
Cost:								
At 1 July 2008	43,391	40,848	1,914	3,972	10,636	100,761	23,938	124,699
Transfer from construction in progress	60,875	–	–	–	(60,875)	–	–	–
Additions	770	4,821	7,106	1,621	153,044	167,362	64,540	231,902
Disposals	–	(554)	–	–	–	(554)	–	(554)
At 30 June 2009	105,036	45,115	9,020	5,593	102,805	267,569	88,478	356,047
Accumulated depreciation and amortisation:								
At 1 July 2008	26	11,254	260	566	–	12,106	513	12,619
Provision for the year	2,347	4,167	1,669	1,099	–	9,282	1,420	10,702
Written back on disposals	–	(446)	–	–	–	(446)	–	(446)
At 30 June 2009	2,373	14,975	1,929	1,665	–	20,942	1,933	22,875
Net book value:								
At 30 June 2009	102,663	30,140	7,091	3,928	102,805	246,627	86,545	333,172

As at 30 June 2009, fixed assets with aggregate net book value of RMB80,815,000 (2008: RMB5,945,000) are pledged as security for certain bank loans of the Group totalling RMB40,000,000 (2008: RMB15,000,000).

The Group's buildings and interests in leasehold land held for own use under operating leases are located in the PRC. The Group is granted land use rights for a period of 50 years.

At 30 June 2009, the Group was applying for certificates of ownership for buildings with net book value of RMB13,650,000 (2008: RMB Nil) from the relevant PRC government authorities.

(Expressed in thousands of Renminbi unless otherwise indicated)

14 Investments in subsidiaries

	The Company 2009 RMB'000
Unlisted shares, at cost	1

Details of the subsidiaries are as follows. The class of shares held is ordinary unless otherwise stated.

Name of company	Place of establishment/ incorporation and operation	Particulars of issued and paid up capital/registered capital	Proportion of ownership interest: Group's effective interest	held by the Company	held by a subsidiary	Principal activity
Sanliuyidu Holdings Company Limited	British Virgin Islands ("BVI")	US$100/US$50,000	100%	100%	–	Investment holding
361 Enterprise Company Limited	Hong Kong	HK$1/HK$10,000	100%	–	100%	Investment holding
Sanliuyidu (Fujian) Sports Goods Co., Ltd *(Notes (i) and (iii))*	PRC	HK$80,000,000/ HK$80,000,000	100%	–	100%	Manufacture and trading of sporting goods
Sanliuyidu (China) Co., Ltd *(Notes (i) and (iii))*	PRC	HK$160,000,000/ HK$160,000,000	100%	–	100%	Manufacture and trading of sporting goods
Sanliuyidu Xiamen Industry & Trade Co., Limited *(Notes (ii) and (iii))*	PRC	RMB100,000,000/ RMB100,000,000	100%	–	100%	Trading of sporting goods

Notes:

(i) These entities are wholly foreign owned enterprises established in the PRC.

(ii) The entity is a limited liability company established in the PRC.

(iii) The English translation of the company names is for reference only. The official names of these companies are in Chinese.

(Expressed in thousands of Renminbi unless otherwise indicated)

15 Inventories

Inventories in the consolidated balance sheet comprise:

	The Group	
	2009	2008
	RMB'000	RMB'000
Raw materials	**12,933**	23,112
Work in progress	**50,652**	110,070
Finished goods	**20,052**	47,874
	83,637	181,056

All the inventories as at 30 June 2008 and 2009 were carried at cost.

16 Trade and other receivables

	The Group	
	2009	2008
	RMB'000	RMB'000
Trade debtors	**1,453,033**	525,942
Bills receivable	**—**	25,520
Less: allowance for doubtful debts	**(39,520)**	(14,279)
	1,413,513	537,183
Deposits, prepayments and other receivables	**178,282**	136,584
	1,591,795	673,767

All of the trade and other receivables are expected to be recovered within one year, except that the Group's deposits, prepayments and other receivables totalling RMB21,963,000 (2008: RMB21,456,000) are expected to be recovered or recognised as expenses after more than one year.

(Expressed in thousands of Renminbi unless otherwise indicated)

16 Trade and other receivables (Con't)

(a) Ageing analysis

Included in trade and other receivables are trade debtors and bills receivable (net of allowance for doubtful debts) with the following ageing analysis, based on the date of invoice, as of the balance sheet date:

	The Group	
	2009	2008
	RMB'000	RMB'000
Within 90 days	**1,079,042**	393,264
Over 91 days but less than 180 days	**312,456**	94,973
181 to 360 days	**22,015**	48,946
	1,413,513	537,183

(b) Impairment of trade debtors and bills receivable

Impairment losses in respect of trade debtors and bills receivable are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade debtors and bills receivable directly (see note 2(f)(i)).

The movement in the allowance for doubtful debts during the year, including both specific and collective loss components, is as follows:

	The Group	
	2009	2008
	RMB'000	RMB'000
At 1 July 2008/2007	**14,279**	5,378
Impairment loss recognised	**25,241**	8,901
At 30 June 2009/2008	**39,520**	14,279

At 30 June 2009, the Group's trade debtors and bills receivable of RMB39,520,000 (2008: RMB14,279,000) were individually determined to be impaired. The individually impaired receivables related to a number of customers and management assessed that the receivables were not recoverable. Consequently, specific allowances for doubtful debts were recognised. The Group does not hold any collateral over these balances.

(Expressed in thousands of Renminbi unless otherwise indicated)

16 Trade and other receivables (Con't)

(c) Trade debtors and bills receivable that are not impaired

Trade debtors and bills receivable are due within 30 to 180 days from the date of billing which representing the Group's credit policy. Further details on the Group's credit policy are set out in note 26(a).

The ageing analysis of trade debtors and bills receivable that are neither individually nor collectively considered to be impaired are as follows:

	The Group	
	2009	2008
	RMB'000	RMB'000
Not past due	**1,269,012**	280,852
Less than 1 month past due	**45,728**	112,412
1 to 3 months past due	**98,773**	94,973
More than 3 months past due	**—**	48,946
Amount past due	**144,501**	256,331
	1,413,513	537,183

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

17 Pledged bank deposits

Bank deposits are pledged to banks as security for certain banking facilities (see note 20).

(Expressed in thousands of Renminbi unless otherwise indicated)

18 Cash and cash equivalents

Cash and cash equivalents of the Group and the Company represent cash at bank and in hand. At 30 June 2009, the balances that were placed with banks in the PRC and included in the cash and cash equivalents amounted to RMB454,943,000 (2008: RMB108,895,000). Remittance of funds out of the PRC is subject to the exchange restriction imposed by the PRC government.

19 Bank loans

As at 30 June 2009, the bank loans were repayable as follows:

	The Group	
	2009	2008
	RMB'000	RMB'000
Within 1 year or on demand	**267,000**	149,500

As at 30 June 2009, the bank loans were secured as follows:

	The Group	
	2009	2008
	RMB'000	RMB'000
Bank loans		
— secured	**40,000**	15,000
— unsecured	**227,000**	134,500
	267,000	149,500

The amounts of banking facilities and the utilisation at each balance sheet date are set out as follows:

	The Group	
	2009	2008
	RMB'000	RMB'000
Facility amount	**935,000**	530,000
Utilisation at the balance sheet date	**587,000**	293,000

(Expressed in thousands of Renminbi unless otherwise indicated)

19 Bank loans (Con't)

At 30 June 2009, certain banking facilities of the Group were secured by mortgages over their interests in leasehold land held under operating leases and other fixed assets with carrying values of RMB38,505,000 (2008: RMB5,945,000) and RMB42,310,000 (2008: RMB Nil) respectively.

At 30 June 2008, certain bank loans of RMB90,000,000 were guaranteed by a related party. In addition, bank loans of RMB40,000,000 were jointly guaranteed by certain shareholders of the Company and a related party. The guarantees were released during the year ended 30 June 2009.

20 Trade and other payables

	The Group		The Company
	2009	2008	**2009**
	RMB'000	RMB'000	**RMB'000**
Trade payables	**662,280**	327,276	**–**
Bills payable	**320,000**	143,500	**–**
Receipts in advance	**26,791**	32,314	**–**
Other payables and accruals	**218,226**	31,623	**34,635**
Total	**1,227,297**	534,713	**34,635**

All of the trade and other payables are expected to be settled or recognised as income within one year or are repayable on demand.

Bills payable as at 30 June 2009 and 2008 were secured by pledged bank deposits as disclosed in note 17.

At 30 June 2008, certain bills payable of RMB46,500,000 were guaranteed by a related party. In addition, bills payable of RMB92,000,000 were jointly guaranteed by certain shareholders of the Company and a related party. The guarantees were released during the year ended 30 June 2009.

(Expressed in thousands of Renminbi unless otherwise indicated)

20 Trade and other payables (Con't)

Included in trade and other payables are trade creditors and bills payable with the following ageing analysis as of the balance sheet date:

	The Group	
	2009	2008
	RMB'000	RMB'000
Due within 1 month or on demand	**122,009**	49,174
Due after 1 month but within 3 months	**173,357**	93,275
Due after 3 months but within 6 months	**686,914**	328,327
Total	**982,280**	470,776

21 Amounts due from/to related parties/shareholder of the Company/subsidiaries

The Group

Amounts due from related parties were unsecured, interest-free and recovered during the year ended 30 June 2009.

Amounts due to a shareholder of the Company were unsecured and interest-free. The amounts were waived by the shareholder during the year ended 30 June 2009 and recorded as a capital contribution (note 25).

The Company

Amounts due from/to subsidiaries are unsecured, interest-free and repayable on demand.

22 Employee retirement benefits

Defined contribution retirement plans

Pursuant to the relevant labour rules and regulations in the PRC, the PRC subsidiaries participate in a defined contribution retirement benefit scheme (the "Scheme") organised by the PRC municipal government authority in the Fujian Province whereby the Group is required to make contributions to the Scheme at a rate of 18% of the eligible employees' salaries. The local government authority is responsible for the entire pension obligations payable to retired employees.

The Group also operates a Mandatory Provident Fund Scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000. Contributions to the plan vest immediately.

The Group has no other material obligation for the payment of pension benefits associated with the Scheme beyond the annual contributions described above.

23 Equity-settled share-based payments

(a) Pre-IPO share option scheme

Pursuant to the shareholders' written resolution passed on 10 June 2009, the Company adopted a Pre-IPO share option scheme ("the Pre-IPO Option") whereby 91 employees of the Company were given the rights to subscribe for shares of the Company. The subscription price per share pursuant to the Pre-IPO Option is HK$2.89, being 20% discount to the global offering price.

Each option granted under the Pre-IPO Option has a vesting period of three years commencing from the date of listing of the Company on the Hong Kong Stock Exchange ("listing date") and the options are exercisable for a period of five years. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

(Expressed in thousands of Renminbi unless otherwise indicated)

23 Equity-settled share-based payments (Con't)

(a) Pre-IPO share option scheme (Con't)

(i) The terms and conditions of the grants that existed during the years are as follows:

	Number of instruments '000	Exercise conditions	Contractual life of options
Options granted to employees:			
— on 10 June 2009	6,114	One year from the date of listing of the Company's shares	5.1 years
— on 10 June 2009	6,114	Two years from the date of listing of the Company's shares	5.1 years
— on 10 June 2009	8,152	Three years from the date of listing of the Company's shares	5.1 years
	20,380		

(Expressed in thousands of Renminbi unless otherwise indicated)

23 Equity-settled share-based payments (Con't)

(a) Pre-IPO share option scheme (Con't)

(ii) The number and weighted average exercise price of share options are as follows:

	2009	
	Exercise price	**Number of options '000**
Outstanding at the beginning of the period	**–**	**–**
Granted during the period	**HK$2.89**	**20,380**
Outstanding at the end of the period	**HK$2.89**	**20,380**
Exercisable at the end of the period	**–**	**–**

No share options were exercised during the year.

The share options outstanding at 30 June 2009 had an exercise price of HK$2.89 and a weighted average remaining contractual life of 5 years. No options and rights were outstanding as at 30 June 2008 as the Pre-IPO share option scheme was not effective during that year.

(iii) Fair value of share options and assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of share options. The estimate of the fair value of the share options granted is measured based on a Binomial lattice model. The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the Binomial lattice model.

Fair value of share options and assumptions

	2009
Fair value at measurement date	**HK$0.86**
Share price	**HK$2.14**
Exercise price	**HK$2.89**
Expected volatility (expressed as weighted average volatility used in the modelling under binominal lattice model)	**50.97%**
Expected option life (expressed as weighted average life used in the modelling under binominal lattice model)	**5 years**
Expected dividends	**2.80%**
Risk-free interest rate	**2.03%**

(Expressed in thousands of Renminbi unless otherwise indicated)

23 Equity-settled share-based payments (Con't)

(b) Share option scheme

The Company has also adopted a share option scheme ("the Share Option Scheme") pursuant to the shareholders' written resolution passed on 10 June 2009.

The maximum number of shares that may be granted under the Share Option Scheme and other share options schemes shall not exceed 10% of the number of issued shares of the Company from time to time. No option may be granted to any person such that the total number of shares of the Company issued and to be issued upon exercise of all options granted and to be granted to that person in any 12-month period exceeds 1% of the number of shares of the Company in issued from time to time.

An option under the Share Option Scheme may be exercised in accordance with the terms of the scheme at any time during a period as determined by the Board of Directors of the Company, which must not be more than 10 years from the date of the grant.

No share option has been granted under the Share Option Scheme during the year.

24 Income tax in the balance sheet

(a) Current taxation in the consolidated balance sheet represents:

	The Group	
	2009	2008
	RMB'000	RMB'000
Provision for PRC income tax	**86,369**	13,270
Tax paid	**(21,518)**	(8,487)
	64,851	4,783

(Expressed in thousands of Renminbi unless otherwise indicated)

24 Income tax in the balance sheet (Con't)

(b) Deferred tax assets/(liabilities) recognised:

The Group

The components of deferred tax assets/(liabilities) recognised in the consolidated balance sheet and the movements during the year are as follows:

	Allowance for doubtful debts RMB'000	Withholding tax on dividends RMB'000	Total RMB'000
At 1 July 2007	1,345	—	1,345
Credited/(charged) to profit or loss	2,225	(7,154)	(4,929)
At 30 June 2008	3,570	(7,154)	(3,584)
At 1 July 2008	**3,570**	**(7,154)**	**(3,584)**
Credited/(charged) to profit or loss	**6,310**	**(12,230)**	**(5,920)**
At 30 June 2009	**9,880**	**(19,384)**	**(9,504)**

(c) Deferred tax liabilities not recognised

At 30 June 2009, the Group has not recognised deferred tax liabilities of RMB2,076,000 (2008: RMB Nil) in respect of temporary differences relating to the undistributed profits of subsidiaries amounting to RMB41,520,000 (2008: RMB Nil) that would be payable on the distribution of these retained profits as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that these profits will not be distributed in the foreseeable future.

(Expressed in thousands of Renminbi unless otherwise indicated)

25 Capital and reserves

(a) The Group

	Note	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Other reserve RMB'000	Statutory reserve RMB'000	Share option reserve RMB'000	Exchange reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 July 2007		82,724	–	–	–	6,385	–	1,842	36,180	127,131
Exchange differences on translation of financial statements of operations outside PRC		–	–	–	–	–	–	11,482	–	11,482
Profit for the year		–	–	–	–	–	–	–	178,973	178,973
Appropriation to statutory reserve		–	–	–	–	26,846	–	–	(26,846)	–
At 30 June 2008		82,724	–	–	–	33,231	–	13,324	188,307	317,586
At 1 July 2008		**82,724**	**–**	**–**	**–**	**33,231**	**–**	**13,324**	**188,307**	**317,586**
Shares issued upon incorporation	*25(c)*	**1**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1**
Capitalisation issue	*25(c)(i)*	**132,254**	**(132,254)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Shares issued under placing and public offering, net of issuing expenses	*25(c)(ii)*	**44,085**	**1,435,087**	**–**	**–**	**–**	**–**	**–**	**–**	**1,479,172**
Increase in reserve arising on Reorganisation	*25(d)(ii)*	**(82,724)**	**–**	**156,252**	**82,724**	**–**	**–**	**–**	**–**	**156,252**
Exchange differences on translation of financial statements of operations outside PRC		**–**	**–**	**–**	**–**	**–**	**–**	**1,328**	**–**	**1,328**
Equity-settled share-based payments		**–**	**–**	**–**	**–**	**–**	**490**	**–**	**–**	**490**
Profit for the year		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**632,111**	**632,111**
Appropriation to statutory reserve		**–**	**–**	**–**	**–**	**94,507**	**–**	**–**	**(94,507)**	**–**
Dividends paid during the year		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(76,742)**	**(76,742)**
At 30 June 2009		**176,340**	**1,302,833**	**156,252**	**82,724**	**127,738**	**490**	**14,652**	**649,169**	**2,510,198**

(Expressed in thousands of Renminbi unless otherwise indicated)

25 Capital and reserves (Con't)

(b) The Company

	Note	Share capital RMB'000	Share premium RMB'000	Share option reserve RMB'000	Exchange reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 August 2008		–	–	–	–	–	–
Shares issued upon incorporation		1	–	–	–	–	1
Capitalisation issue	25(c)(i)	132,254	(132,254)	–	–	–	–
Shares issued under placing and public offering, net of issuing expenses	25(c)(ii)	44,085	1,435,087	–	–	–	1,479,172
Exchange differences on translation of financial statements of operation outside PRC		–	–	–	59	–	59
Equity-settled share-based payments		–	–	490	–	–	490
Profit for the year		–	–	–	–	212,940	212,940
Dividends paid during the year	11	–	–	–	–	(76,742)	(76,742)
At 30 June 2009		176,340	1,302,833	490	59	136,198	1,615,920

(c) Share capital

The Company was incorporated on 1 August 2008 and the share capital as at 30 June 2008 represented the aggregate amount of paid-in capital of the companies now comprising the Group and a predecessor entity, after elimination of investments in subsidiaries.

Movements of the authorised share capital of the Company during the year are as follows:

	Par value HK$	Number of shares '000	Nominal value of ordinary shares HK$'000
Authorised:			
At 1 August 2008 and 30 June 2009	0.1	10,000,000	1,000,000

(Expressed in thousands of Renminbi unless otherwise indicated)

25 Capital and reserves (Con't)

(c) Share capital (Con't)

A summary of the movements in the Company's issued share capital for the period from 1 August 2008 (date of incorporation of the Company) to 30 June 2009 is as follows:

	Note	Par value HK$	Number of shares '000	Nominal value of ordinary shares HK$'000	RMB'000
Issued and fully paid:					
At 1 August 2008		**0.1**	**10**	**1**	**1**
Capitalisation issue	(i)	**0.1**	**1,499,990**	**149,999**	**132,254**
Issues of shares under placing and public offering	(ii)	**0.1**	**500,000**	**50,000**	**44,085**
At 30 June 2009		**0.1**	**2,000,000**	**200,000**	**176,340**

The Company was incorporated on 1 August 2008 with an authorised share capital of HK$1,000 divided into 10,000 shares of HK$0.10 each.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

Notes:

(i) **Capitalisation issue**

Pursuant to the written resolution on 10 June 2009, the Company allotted and issued 1,499,990,000 shares of HK$0.1 each to the then existing shareholders of the Company. This resolution was conditional on the share premium account being credited as a result of the Company's public offering and pursuant to this resolution, a sum of RMB132,254,000 standing to the credit of the share premium account was subsequently applied in paying up this capitalisation in full.

(ii) **Issue of shares under placing and public offering**

On 30 June 2009, the Company issued 500,000,000 shares with a par value of HK$0.10 each, at a price of HK$3.61 per share by way of a global initial public offering to Hong Kong and overseas investors. Net proceeds from such issue amounted to RMB1,479,172,000 (after offsetting listing expenses of RMB112,297,000), out of which RMB44,085,000 and RMB1,435,087,000 were recorded in share capital and share premium respectively.

25 Capital and reserves (Con't)

(d) Nature and purpose of reserve

(i) Share premium

Under the Companies Law of the Cayman Islands, the share premium account of the Company may be applied for payment of distributions or dividends to shareholders provided that immediately following the date on which the distribution or dividend is proposed to be paid, the Company is able to pay its debts as they fall due in the ordinary courses of business.

(ii) Capital reserve

On 9 June 2009, 361 Enterprise Company Limited entered into an agreement with a shareholder of the Company whereby repayment of amounts due to the shareholder by 361 Enterprise Company Limited totalling HK$177,216,000 (equivalent to RMB156,252,000) was waived. The waiver of repayment has been reflected as a reduction in the amounts due to a shareholder of the Company and a corresponding increase in capital reserve during the year.

(iii) Other reserve

On 25 July 2008, the then shareholders transferred the entire equity interest in Sanliuyidu (Fujian) Sports Goods Co., Ltd. and the business of Sanliuyidu (Hong Kong) Sports Goods Co., Ltd. to 361 Enterprise Company Limited for cash consideration of HK$1. The difference between the historical carrying value of equity acquired and acquisition consideration is treated as an equity movement and recorded in "Other reserve".

(iv) Statutory reserve

Pursuant to applicable PRC regulations, certain PRC subsidiaries are required to appropriate 15% of their profit-after-tax (after offsetting prior year losses) to the reserve until such reserve reaches 50% of the registered capital. The transfer to the reserve must be made before distribution of dividends to shareholders. The statutory reserve can be utilised, upon approval by the relevant authorities, to offset accumulated losses or to increase registered capital of the subsidiary, provided that the balance after such issue is not less than 25% of its registered capital.

(v) Share option reserve

The share option reserve comprises the fair value of the actual or estimated number of unexercised share options granted under the Pre-IPO share option scheme recognised in accordance with the accounting policy adopted for share-based payments in note 2(l)(ii).

(vi) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations outside PRC. The reserve is dealt with in accordance with the accounting policy set out in 2(p).

25 Capital and reserves (Con't)

(e) Distributability of reserves

At 30 June 2009, the aggregate amount of reserves available for distribution to equity shareholders of the Company was RMB1,439,090,000. After the balance sheet date the directors proposed a final dividend of RMB6.5 cents (equivalent to HK$7.4 cents) per ordinary share, amounting to RMB134,252,000. This dividend has not been recognised as a liability at the balance sheet date.

There was no reserve available for distribution to shareholders as at 30 June 2008 as the Company was incorporated in August 2008.

(f) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of a debt-to-adjusted capital ratio. This ratio is calculated as net debt divided by adjusted capital. The Group defines net debt as interest-bearing bank loans less pledged bank deposits and cash and cash equivalents. Adjusted capital comprises all components of equity, and includes amounts due to a shareholder of the Company.

(Expressed in thousands of Renminbi unless otherwise indicated)

25 Capital and reserves (Con't)

(f) Capital management (Con't)

The net debt-to-adjusted capital ratio as at 30 June 2008 and 2009 were as follows:

	The Group		The Company
	2009	2008	**2009**
	RMB'000	RMB'000	**RMB'000**
Bank loans	**267,000**	149,500	**–**
Less: Pledged bank deposits	**(86,700)**	(38,500)	**–**
Cash and cash equivalents	**(1,983,546)**	(108,895)	**(1,527,991)**
Net debt	**(1,803,246)**	2,105	**(1,527,991)**
Equity	**2,510,198**	317,586	**1,651,920**
Add: Amounts due to a shareholder of the Company	**–**	142,149	**–**
Adjusted capital	**2,510,198**	459,735	**1,651,920**
Net debt-to-adjusted capital ratio	**N/A**	0.005	**N/A**

Neither the Company nor any of its subsidiaries is subject to externally imposed capital requirements.

26 Financial instruments

Exposure to credit, liquidity, interest rate, commodity price and currency risks arises in the normal course of the Group's business. These risks are limited by the Group's financial management policies and practices described below.

(a) Credit risk

(i) Trade and other receivables

The Group's credit risk is primarily attributable to trade and other receivables. Credit evaluations are performed on all customers requiring credit over a certain amount. Trade receivables are due within 30 to 180 days from the date of billing. Debtors with balances that are more than 1 year from the date of billing are requested to settle all outstanding balances before any further credit is granted.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk but to a lesser extent. Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 16.

At the balance sheet date, the Group has a certain concentration of credit risk as 27% (2008: 14%) of the total trade receivables were due from the Group's largest customer, and 59% (2008: 52%) of the total trade receivables were due from the Group's five largest customers as at 30 June 2009.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated balance sheet.

(ii) Deposits with banks

The Group mitigates its exposure to credit risk by placing deposits with financial institutions with established credit ratings. Given the high credit ratings of the banks, management does not expect any counterparty to fail to meet its obligations.

(Expressed in thousands of Renminbi unless otherwise indicated)

26 Financial instruments (Con't)

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the Company's board when the borrowing exceeds certain predetermined levels of authority. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following table details the remaining contractual maturities at the balance sheet date of the Group's and the Company's financial liabilities, which are based on contractual undiscounted cashflows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the Group and the Company can be required to pay:

The Group

	2009			2008		
	Carrying amount RMB'000	**Total contractual undiscounted cash flow RMB'000**	**Within 1 year or on demand RMB'000**	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within 1 year or on demand RMB'000
Bank loans	**267,000**	**276,644**	**276,644**	149,500	157,208	157,208
Trade and other payables	**1,227,297**	**1,227,297**	**1,227,297**	534,713	534,713	534,713
Amounts due to a shareholder of the Company	**–**	**–**	**–**	142,149	142,149	142,149
	1,494,297	**1,503,941**	**1,503,941**	826,362	834,070	834,070

The Company

	2009		
	Carrying amount RMB'000	**Total contractual undiscounted cash flow RMB'000**	**Within 1 year or on demand RMB'000**
Amounts due to subsidiaries	**13,883**	**13,883**	**13,883**
Other payables	**34,635**	**34,635**	**34,635**
	48,518	**48,518**	**48,518**

(Expressed in thousands of Renminbi unless otherwise indicated)

26 Financial instruments (Con't)

(c) Interest rate risk

(i) Interest rate profile

The Group's interest rate risk arises primarily from bank loans, pledged bank deposits and cash and cash equivalents.

The following table details the interest rate profile of the Group's and the Company's interest-generating financial assets and interest-bearing financial liabilities at the balance sheet date:

The Group

	2009		2008	
	Effective interest rate	**RMB'000**	Effective interest rate	RMB'000
Fixed rate borrowings				
Bank loans	**4.62%–8.22%**	**267,000**	6.20%–8.20%	149,500
Variable rate deposits				
Pledged bank deposits	**0.36%–1.98%**	**(86,700)**	3.33%	(38,500)
Cash and cash equivalents	**0.01%–0.36%**	**(1,983,546)**	0.72%	(108,895)
		(2,070,246)		(147,395)
Total net (deposits)/ borrowings		**(1,803,246)**		2,105

The Company

	2009	
	Effective interest rate	**RMB'000**
Variable rate deposits		
Cash and cash equivalents	**0.01%**	**(1,527,991)**

26 Financial instruments (Con't)

(c) Interest rate risk (Con't)

(ii) Sensitivity analysis

At 30 June 2009, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would increase/decrease the Group's profit after tax and retained profits by approximately RMB20,702,000 (2008: decrease/increase the Group's profit after tax and retained profits by approximately RMB1,474,000). Other components of equity would not be affected by the changes in interest rates.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for financial instruments in existence at that date. The 100 basis point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the year until the next annual balance sheet date. The analysis is performed on the same basis in 2008.

(d) Commodity price risk

The major raw materials used in the production of the Group's products include polymers and plastics. The Group is exposed to fluctuations in the prices of these raw materials which are influenced by global as well as regional supply and demand conditions. Fluctuations in the prices of raw materials could adversely affect the Group's financial performance. The Group historically has not entered into any commodity derivative instruments to hedge the potential commodity price changes.

(e) Foreign currency risk

The Group is exposed to currency risk primarily through bank deposits and the amounts due to a shareholder of the Company that are denominated in a currency other than the functional currency of the operations to which they relate. The currency giving rise to this risk is primarily Hong Kong dollars ("HKD").

(Expressed in thousands of Renminbi unless otherwise indicated)

26 Financial instruments (Con't)

(e) Foreign currency risk (Con't)

(i) Exposure to currency risk

The following table details the Group's and the Company's exposure at the balance sheet date to currency risk arising from recognised assets/(liabilities) denominated in a currency other than the functional currency of the entity to which they relate.

The Group

	2009 HKD'000	2008 HKD'000
Cash and cash equivalents	**1,733,699**	—
Other payables	**(39,282)**	—
Amounts due to a shareholder of the Company	**—**	(164,520)

The Company

	2009 HKD'000
Cash and cash equivalents	**1,733,006**
Other payables	**(39,282)**

(ii) Sensitivity analysis

The following table indicates the approximate change in the Group's profit after tax and retained profits in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure at the balance sheet date.

	2009		2008	
	Increase/ (decrease) in foreign exchange rates	**Effect on profit after tax and retained profits '000**	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits '000
HKD	**5%**	**74,668**	5%	(7,236)
	(5%)	**(74,668)**	(5%)	7,236

26 Financial instruments (Con't)

(e) Foreign currency risk (Con't)

(ii) Sensitivity analysis (Con't)

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the balance sheet date and had been applied to exposure to currency risk for financial instruments in existence at that date, and that all other variables, in particular interest rates, remain constant.

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the year until the next annual balance sheet date. Results of the analysis as presented in the above table represent an aggregation of the effects on each of the group entities' profit after tax and retained profits measured in the respective functional currencies, translated into RMB at the exchange rate ruling at the balance sheet date for presentation purposes. The analysis is performed on the same basis in 2008.

(f) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 30 June 2009 and 2008.

(g) Business risk

The Group's primary business is the design, manufacturing and distribution of branded sports footwear, apparel and related accessories. The Group's financial results are influenced by the rapidity with which designs are copied by competitors and reproduced at much lower prices, as well as by the Group's ability to continue to create new designs that find favour in the market place, maintain a larger network of distributors, manufacture sufficient quantities to meet fashionable sales, and dispose of excess inventories without excessive losses. Based on these factors, the Group may experience significant fluctuations in its future financial results.

(Expressed in thousands of Renminbi unless otherwise indicated)

27 Commitments

(a) Contractual commitments outstanding at 30 June 2009 not provided for in the financial statements were as follows:

	The Group	
	2009	2008
	RMB'000	RMB'000
Advertising and marketing expenses	**694,441**	28,380

(b) Capital commitments outstanding at 30 June 2009 not provided for in the financial statements were as follows:

	The Group	
	2009	2008
	RMB'000	RMB'000
Authorised and contracted for	**31,815**	80,831

(c) At 30 June 2009, the Group had total future minimum lease payments under non-cancellable operating leases payable as follows:

	The Group	
	2009	2008
	RMB'000	RMB'000
Within 1 year	**2,190**	2,115
After 1 year but within 5 years	**132**	—
	2,322	2,115

The Group leases warehouses and offices under operating leases expiring in one year with options to renew the leases when all terms are renegotiated. None of the leases include contingent rentals.

(Expressed in thousands of Renminbi unless otherwise indicated)

28 Material related party transactions

In addition to the transactions and balances disclosed elsewhere in the consolidated financial statements, the Group entered into the following related party transactions:

(a) During the year ended 30 June 2008, the Group leased certain interests in leasehold land held for own use under operating lease and buildings from a related company, Bieke (Fujian) Shoes Company Ltd. (a company wholly-owned by Mr Ting Tong Bun, who is the father-in-law of a shareholder of the Group, Mr Ding Huihuang), at annual rental expenses of RMB313,000.

The Group acquired the above mentioned interests in leasehold land held for own use under operating lease and buildings from Bieke (Fujian) Shoes Company Ltd. The consideration paid for interests in leasehold land held for own use under operating lease and buildings during the year ended 30 June 2009 amounted to RMB8,239,000 (2008: RMB547,000) and RMB Nil (2008: RMB42,100,000) respectively.

The directors of the Company have confirmed that the above transactions are conducted on normal commercial terms and in ordinary course of business.

(b) Advances to/from related parties

Included in the balances as set out in note 28(c) were unsecured and interest free advances made to/from related parties of the Group, the maximum balances of which during the year ended 30 June 2009 are as follows:

	The Group	
	2009	2008
	RMB'000	RMB'000
Short term advances to related parties		
— Mr Ting Tong Bun	**49,995**	119,548
— Bieke (Fujian) Shoes Company Ltd.	**18,819**	38,910
	68,814	158,458
Short term advances from a shareholder of the Company		
— Mr Ding Huihuang	**(156,252)**	(142,149)

(Expressed in thousands of Renminbi unless otherwise indicated)

28 Material related party transactions (Con't)

(c) Balances with related parties

As at the balance sheet date, the Group had the following balances with related parties:

	The Group	
	2009	2008
	RMB'000	RMB'000
Amounts due from/(to)		
— Mr Ting Tong Bun	**–**	41,295
— Bieke (Fujian) Shoes Company Ltd.	**–**	(3,278)
	–	38,017
Amounts due to a shareholder of the Company		
— Mr Ding Huihuang	**–**	(142,149)

Details of the terms are set out in note 21 to the financial statements.

(d) At 30 June 2008, certain bank loans and bills payable totalling RMB136,500,000 were guaranteed by Bieke (Fujian) Shoes Company Ltd. (a related party). In addition, certain bank loans and bills payable totalling RMB132,000,000 were guaranteed by Mr Ding Wuhao, Mr Ding Huihuang, Mr Ding Huirong and Mr Ding Jiantong (shareholders of the Company) and/or Mr Ting Tong Bun (a related party) at 30 June 2008. All the guarantees were released during the year ended 30 June 2009. The Group was not required to pay any guarantee fees to the guarantors.

(e) Key management personnel remuneration

Remuneration for key management personnel, including amounts paid to the directors disclosed in note 8 and certain of the highest paid employees as disclosed in note 9, is as follows:

	2009	2008
	RMB'000	RMB'000
Short-term employee benefits	**13,632**	2,974
Equity-settled share-based payments	**125**	—
Post-employment benefits	**55**	26
	13,812	3,000

Total remuneration is disclosed in "staff costs" (see note 6(b)).

29 Non-adjusting post balance sheet events

On 23 July 2009, the Company issued 65,412,000 shares with a par value of HK$0.10 each, at a price of HK$3.61 per share upon the exercise of the over-allotment option in connection with the global initial public offering. Net proceeds from such issue is estimated to be approximately HK$227,800,000 (equivalent to RMB200,851,000).

30 Accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the financial statements. The principal accounting policies are set forth in note 2. The Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of the financial statements.

(a) Depreciation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives, after taking into account the estimated residual value. The Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

30 Accounting estimates and judgements (Con't)

(b) Impairment

If circumstances indicate that carrying value of an asset may not be recoverable, the asset may be considered "impaired", and an impairment loss may be recognised in profit or loss. The carrying amounts of assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount.

The recoverable amount is the greater of the fair value less costs to sell and the value in use. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to level of sales volumes, sales revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sales volumes, sales revenue and amount of operating costs.

(c) Impairment of bad and doubtful debts

The Group estimates allowance for impairment of doubtful debts resulting from inability of the customers to make the required payments. The Group bases the estimates on the ageing of the trade receivables balance, customer credit-worthiness, and historical write-off experience. If the financial condition of the customers were to deteriorate, actual write-offs would be higher than estimated.

(d) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs to completion and selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature.

It could change significantly as a result of changes in customer preferences and competitor actions in response to severe industry cycles. Management reassesses these estimates at each balance sheet date.

(Expressed in thousands of Renminbi unless otherwise indicated)

31 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 30 June 2009

Up to the date of issue of this financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 30 June 2009, and which have not been adopted in this financial statements.

	Effective for accounting periods beginning on or after
HKFRS 3 (Revised), *Business combinations*	1 July 2009
Amendments to HKAS 27, *Consolidated and separate financial statements*	1 July 2009
Amendments to HKAS 39, *Financial instruments: Recognition and measurement — Eligible hedged items*	1 July 2009
HK(IFRIC) 17, *Distributions of non-cash assets to owners*	1 July 2009
Improvements to HKFRSs 2009	1 July 2009 or 1 January 2010

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application but is not yet in a position to state whether these amendments, new standards and interpretations would have a significant impact on the Group's or the Company's results of operations and financial position.

In addition, the following developments are expected to result in amended disclosures in the financial statements, including restatement of comparative amounts in the first period of adoption:

		Effective for accounting periods beginning on or after
HKFRS 8	Operating segments	1 January 2009
HKAS 1 (revised 2007)	Presentation of Financial Statements	1 January 2009

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