361°

ANNUAL REPORT 2009/10

ABOUT 361°

Established in 2003 and listed in June 2009, 361 Degrees is one of China's fastest growing sportswear brand company. The Company is vertically integrated from design, research and development, manufacturing to brand management. It operates through 32 exclusive distributors who supervise about 3,500 authorized dealers that operate over 6,900 outlets throughout China.

361°

廣州2010年亞運會高級合作夥伴
PRESTIGE PARTNER OF GUANGZHOU 2010 ASIAN GAMES

361 Degrees International Limited

INCORPORATED IN THE CAYMAN ISLANDS WITH LIMITED LIABILITY

STOCK CODE : 1361

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), *FCCA, HKICPA*

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

361° Building
Huli High-technology Park
Xiamen, Fujian Province 361009
the PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Rm 3901, 39/F
COSCO Tower
183 Queen's Road Central
Hong Kong

STOCK CODE

01361

CAYMAN ISLANDS 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 law:

Orrick, Herrington & Sutcliffe

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

Financial Highlights for 09/10

Financial Performance

Turnover significantly increased by 25.7% to RMB4,330.8 million

Gross profit substantially increased by 42.9% to RMB1,706.3 million

Operating profit increased by 42.1% to RMB1,051.9 million

Profit attributable to the equity shareholders was RMB916.8 million, representing a significant growth of 45.0%

Gross profit margin increased by 4.7 percentage points ("ppts") to 39.4%

Basic earnings per share is RMB44.5, representing a growth of 5.7%

Proposed to declare a final dividend of RMB9.0 cents per share

Business Performance

Total number of 361° retail outlets increased 872 to 6,927

Income from sales of footwear products increased by 20.3% to RMB1,944.7 million

Income from the sales of apparel products increased by 32.9% to RMB2,331.8 million

The Group has set up two concept stores for its brand, *361°* Town, in Zhengzhou and Jinan, for broadening its network coverage and expanding to a new area for its business model

Five-Year Financial Summary

For the year ended 30 June	2010	2009	2008	2007	2006
Profitability data (RMB'000)					
Turnover	**4,330,804**	3,446,588	1,317,069	373,346	262,923
Gross profit	**1,706,325**	1,193,803	348,028	76,923	27,058
Operating profit	**1,051,852**	740,200	202,543	29,331	12,337
Profit attributable to equity shareholders	**916,814**	632,111	178,973	22,911	11,006
Earnings per share					
— basic (RMB cents)	**44.5**	42.1	11.9	1.5	0.7
— diluted (RMB cents)	**44.3**	42.1	N/A	N/A	N/A
Profitability ratios (%)					
Gross profit margin	**39.4**	34.6	26.4	20.6	10.3
Operating profit margin	**24.3**	21.5	15.4	7.9	4.7
Net profit margin	**21.2**	18.3	13.6	6.1	4.2
Effective tax rate	**12.7**	12.7	9.2	12.9	N/A
Return on shareholders' equity (Note 1)	**31.0**	44.7	80.5	23.0	19.2
Operating ratios (as a percentage of turnover) (%)					
Advertising and promotion expenses	**8.9**	8.2	6.4	9.1	3.3
Staff costs	**3.6**	3.1	5.4	11.2	13.5
Research and development	**0.9**	0.4	0.3	0.06	0.06

Notes:

1) Return on shareholders' equity is equal to the profit attributable to equity shareholders divided by the average opening and closing equity attributable to equity shareholders of the Company.

Five-Year Financial Summary

As at 30 June	2010	2009	2008	2007	2006
Assets and liabilities data (RMB'000)					
Non-current assets	**724,574**	333,172	112,080	40,892	20,266
Current assets	**3,839,443**	3,745,678	1,040,235	350,030	249,064
Current liabilities	**1,129,375**	1,559,148	831,145	263,791	197,592
Non-current liabilities	**3,125**	9,504	3,584	—	—
Equity attributable to equity shareholders	**3,396,423**	2,510,198	317,586	127,131	71,738
Non-controlling interest	**35,094**	—	—	—	—
Asset and Working Capital data					
Current asset ratios	**3.4**	2.4	1.3	1.3	1.3
Gearing ratios (%) (Note 2)	**—**	6.5	13.0	15.3	16.0
Net asset value per share (RMB) (Note 3)	**1.7**	1.3	N/A	N/A	N/A
Inventory turnover days (days) (Note 4)	**15**	21	47	64	39
Trade and bills receivables turnover days (days) (Note 5)	**97**	103	86	75	64
Trade and bills payables turnover days (days) (Note 6)	**111**	118	111	151	164

Notes:

2) 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.

3) The calculation of net asset value per share is based on the net assets dividend by weighted average number of ordinary shares for the year.

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

5) Trade and bills receivables turnover days is equal to the average opening and closing trade and bills receivables after allowance of doubtful debts divided by turnover multiplied by 365/366 days.

6) 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.


361°

CHAIRMAN STATEMENT

Expanding footprints

across China at the right time and costs

Chairman Statement

We believe that China's ongoing rapid economic growth and urbanization will continue to maintain a favorable environment for the sportswear sector as a whole.

Dear Shareholders:

On behalf of the board of directors ("the Board") of 361 Degrees International Limited, I am pleased to present the audited annual results of the Company and its subsidiaries ("the Group") for the year ended 30 June 2010.

The financial year 2009-10 presented real challenges to the Group in striking a balance between achieving well-timed expansion against a backdrop of fierce industry competition; and maintaining most management and internal control parameters in reasonably good order to allow better visibility in our financial health.

We are all pleased to have made the right judgment about China's consumer market, started the right business and established the platform necessary to roll out our countrywide footprint at the right timing and costs.

We are fortunate to capitalize on the gradual swift in China's key economic growth driver from investments to domestic consumption and on the improving awareness of the whole population in leading a more health-conscious lifestyle.

During the financial year, the Group's results hit new records with turnover reaching RMB4,330.8 million, representing a healthy increase of 25.7% as compared with that of the preceding financial year, in line with the overall growth trends of the sportswear segment and the overall retail sector in China.

Profit attributable to shareholders rose by 45.0% to RMB916.8 million as compared to that of the previous financial year mainly due to expansion of our retail network, the ongoing enhancement of the *361°* brand and product quality that lead to increases in both selling prices and sales volume, and better economies of scale brought about by our expanding production capacities.

Basic earnings per share for the financial year were RMB44.5 cents (2008-09: RMB42.1 cents). The Board has recommended, subject to shareholders approval, a final dividend of RMB9.0 cents per share for the financial year to reward the shareholders. This, when added to the interim dividend of RMB4.3 cents already paid, translates into a total payout of RMB13.3 cents for the year, representing 30.0% of the Group's attributable profit.

During the year in our capacities as the global official sponsor of Olympic Council of Asia and the Prestige Partner of the 2010 Guangzhou Asian Games, we unveiled the full range of *361°* professional gears specifically designed for athletes and officials and ceremonial gears for selected Asian teams.

In our capacity as "The First Cooperative Partner for Volunteers in Shanghai Expo 2010", we showcased to tens of millions

of visitors from all around the world to the Shanghai World Expo 2010 *361°* apparel and footwear for volunteers working in the City area.

We are on schedule for installation of a new electronic points-of-sale ("ePOS") enterprise resource planning system for our supply chain. This system is expected to cover the whole distribution network by the financial year 2013, by then information availability and transparency of the whole network will be significantly enhanced, ultimately contributing to even better control of our inventory levels.

Also during the year we rolled out our children's collection. The inaugural trade fair for this collection held in late 2009 received encouraging initial responses from distributors. In the second trade fair held in March 2010, we showcased over 1,000 products and attracted participation of over 400 distributors and retailers. We believe this will become another major growth driver for the Group in the medium term.

We intensified tightening of our working capital management to allow better visibility of our working capital resources and financial health. Our strict adherence to our preset pace of adding 600-800 stores a year to our network helped improve our average trade and bills receivable turnover cycle.

Looking forward, we believe that China's ongoing rapid economic growth and urbanization will continue to maintain a favorable environment for the sportswear sector as a whole. Based on the current momentum, the *361°* brand has already reached the critical mass it needed in terms of awareness. It implies further endeavors to promote the brand and its products will bring in better incremental benefits than those peers positioned lower in the league.

We are particularly optimistic about the *361°* Children's Collection. This is an area that major competitors in the industry had not previously touched but commanding very promising prospects. We deliberately operate this collection as a separate business independent of the other collections, with its dedicated outlets, trade fairs, distributors, product design teams and subcontractors. It will evolve as our star performer in the medium term.

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, 24 August 2010


361°

MANAGEMENT DISCUSSION AND ANALYSIS

Fuel expansion with timely,

efficient and forward-looking market strategies

Management Discussion and Analysis

INDUSTRY REVIEW

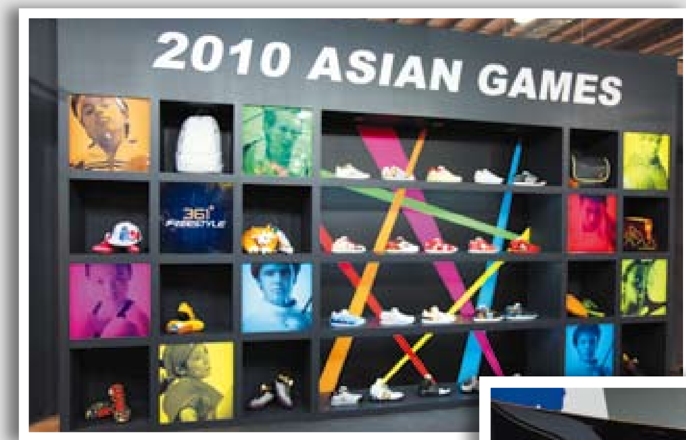
The sequential improvements in retail same store sales growth since the middle of 2009 as reported by major participants in the branded sports goods sector in China have proven the effectiveness of stimulus packages by the Central Government in driving domestic consumption in the country. Effects of ongoing urbanization should continue to support this growth in the foreseeable future.

When compared with other segments of the retail sector in China, the sportswear segment has been exhibiting a track record of outperformance over other segments.

Across the whole sportswear segment in China, retail sales growth rates varied from one participant to the other, largely in line with the positioning of a participant is along its corporate lifecycle. Volatilities due to seasonal factors are becoming less common. The intensity of retail price discounts and promotional activities was noticeably more subdued and yet retail sales momentum remained largely resilient.

The whole sector of domestic sportswear brands has endeavored to put in place new procedures every year to step up vigilance on rapidly-growing distribution channels. That is a positive outcome learned from the excessive inventory build-up shortly after the Beijing Olympics 2008.

Sector participants, meanwhile, are putting increasing emphases on their operational cash generation capabilities, especially for those new and rapidly growing ones. Provision of early financial support to support retail outlet network expansion is not uncommon in China. Appropriately executed and coupled with matching branding and marketing strategies, the potential returns could satisfy most palates.



BUSINESS REVIEW

Sales and distribution network

The Group continued to implement the exclusive distributorship business model developed since early 2008, albeit at a more modest pace in the second half of the financial year than it had been in the first half. This came out of the Group's pledge to adhere to its expansion plan and to shift the priority to work on in-store efficiencies of existing and newly-opened outlets in order to cement its successes in landing footholds in prime retail locations during its relatively aggressive expansions spree in the first half.

As at 30 June 2010, the Group distributed *361°* products through a network comprising 32 independent exclusive distributors. These distributors oversaw 3,495 authorized dealers who in turn owned and managed a total of 6,927 outlets that covered 31 provinces, more than 450 district-level cities and more than 1,200 county-level cities. About 236 outlets and counters for the newly launched children's collection were opened during the year. The number of outlets as at 30 June 2010 represented a net increase of 234 outlets from 6,693 as at 31 December 2009 and a net increase of 872 outlets from 6,055 as at 30 June 2009.

The Group will continue to adhere to its preset pace of adding 600-800 new outlets per year to its outlets network, and to grow the size of the network to about 10,000 outlets in four years' time.

The following table sets forth the geographic distribution of *361°* authorised retail outlets operated by the Group's authorised retailers in the PRC under the *361°* brand as at 30 June 2010 and 30 June 2009:

	As at 30 June				
	2010		2009		
	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	Change (%)
Eastern China [(1)]	**1,876**	**27.1**	1,706	28.2	10.0%
Southern China [(2)]	**1,107**	**16.0**	947	15.6	16.9%
Western China [(3)]	**1,240**	**17.9**	1,019	16.8	21.7%
Northern China [(4)]	**2,704**	**39.0**	2,383	39.4	13.5%
Total	**6,927**	**100.0**	6,055	100.0	14.4%

Notes:

(1) Eastern region includes Jiangsu, Zhejiang, Hubei, Anhui, Hunan, Shanghai and Jiangxi.

(2) Southern region includes Guangdong, Fujian, Guangxi and Hainan.

(3) Western region includes Sichuan, Yunnan, Guizhou, Shaanxi, Xinjiang, Gansu, Chongqing, Qinghai, Ningxia and Tibet.

(4) Northern region includes Shandong, Beijing, Liaoning, Heilongjiang, Hebei, Henan, Shanxi, Jilin, Tianjin and Inner Monogolia.

In order to provide a better classification of the location of outlets, 75 outlets and 66 outlets located on the border of the province Guizhou and Guangxi originally classified as Western region in the financial year of 2009 has been reclassified as Southern region in the financial year of 2010 and 2009, respectively.

As at 30 June 2010, there were two *361°* Town with the floor area of over 1,000 square meters and 72 flagship stores with an average floor area of over 500 square meters.

Location of Selected Flagship Stores:

City/Province	Road/District
Henan Province	74 Dehua Street
Shandong Province	Quancheng Road, Jinan City (on the east side of Walmart)
Niaoning Province	3 Xi Si Road, Xinfu District, Fushun City
Hebei Province	339-349 Yuhua Road, Baoding City, Hebei
Xichuan Province	North side of the building at 46 Chunxi Road North, Jinjiang District
Jilin Province	94 Henan Street, Chuanying District, Jilin City, Jilin
Heilongjiang Province	Fu 41-12, Dacheng Street
Guangdong Province	39-40 Huancheng No.1 West Road, Huicheng District, Huizhou City
Guangdong Province	37 Zhongshan West Road


2,704
Northern Region
Heilongjiang
Jilin
Liaoning
Inner Mongolia
BEIJING
Tianjin
Hebei
Shanxi
Shandong
Henan
Jiangsu
Shanghai
Anhui
Hubei
Zhejiang
Jiangxi
Hunan
1,876
Eastern Region
Fujian
Guangxi
Guangdong
1,107
Southern Region
Ningxia
Shaanxi
Sichuan
Chongqing
Guizhou
Yunnan

ePOS milestone achieved with 1,500 outlets connected

The Group was on schedule for installation of a new electronic points-of-sale ("ePOS") enterprise resource planning system for its supply chain. This ePOS initially covered large distributors in Guangzhou, Fujian, Hubei and Sichuan, allowing the Group to get connected to around 1,500 outlets by the end of June 2010. It is expected that the number of connected outlets could reach 2,500 by December 2010, with the whole distribution network covered by the financial year 2013.

The Group will start working on backend integration of its headquarters with its suppliers in mid-2011 which is scheduled to complete by mid-2013. The Group considers that a comprehensive ePOS coverage of the entire retail network should help enhance information availability and transparency and optismisation of its inventory levels.

361° Children's Collection

The *361°* Children's Collection was one of the business highlights of the Group during the financial year under review. The Group deliberately operates this collection as a separate business independent from the other collections, with its dedicated outlets, trade fairs, distributors, product design teams and subcontractors. The inaugural trade fair for this collection held in late 2009 received encouraging initial responses from the distributors. In the second trade fair held in March 2010, the Group showcased over 1,000 products and attracted participation of over 400 distributors and retailers. Orders valued RMB130 million in aggregate were received and were scheduled for delivery between July and September.

As at 30 June 2010, there were 236 dedicated outlets for the *361°* Children's Collection, of which 98 were standalone stores operated by authorized retailers and 82 were counters set up in *361°* franchised adults' wear stores and 56 counters were located in department stores and hypermarkets.

Brand promotion and marketing

Customers' ready acceptance of *361°* products, their strong association of the products with high performance, innovation and cutting-edge style were the core drivers of the Group's success in the last few years. This brand strength hinges on the Group's resources and devotion put into promoting the *361°* brand on an ongoing basis.

361° unveiled its full range of professional gears for 2010 Guangzhou Asian Games (the "Games") when participating in the 26th China International Sporting Goods Show held on 20 May 2010 at the China International Exhibition Center in Beijing. As the global official sponsor of Olympic Council of Asia, as well as the Prestige Partner of the Games, *361°* showcased its four major series of sports gears designed specially for the Games, including the official uniforms, gears for the 42 professional contests, *361°* Asian Games tunic for the national teams, and *361°* Asian Games medal ceremony gears for Asian teams. These gears exhibited full-blown breakthroughs in sports technology R&D and designs originated from a home-grown sports brand. They will play an instrumental role in assisting professional athletes to excel themselves in the contests.

The Group also developed gears for the National Cycling Team, the National Modern Pentathlon Team, the National Triathlon Team, the National Hockey Team, the National Softball Team and the National Handball Team of China, embodying the cutting-edge technologies in the world and meeting the most stringent requirements of world-class games. These gears will fuel the athletes' courage in achieving new records in the Games.

Outside China, the Group also provides the Games medal ceremony gears designed for other Asian countries such as the Olympic Councils of Malaysia and the Philippines. The Group collaborated with Asian Games Organizing Committee to provide high quality and high value-added series gears for torchbearers, volunteers, officials, referees, etc.

The Group leveraged in full its edges in sports technology, designs and innovation in its Asian Games gear design, emphasizing the gears' functionalities that help athletes to achieve outstanding performances. At the same time, the Group also imbued the concept of "Green Asia Games" into its product design and incorporated environment-friendly fabric development and tailoring into the design planning, illustrating the eternal love and passion of *361°* for the sports industry.

In May, the Group unveiled to tens of millions of visitors from all around the world to the Shanghai World Expo 2010 the *361°* apparel and footwear for volunteers working in the Expo venue, in its capacity as "The First Cooperative Partner for Volunteers in Shanghai Expo 2010".

In February, the China National Female Curling Team, in full gears specially-designed by *361°*, won its first bronze medal in the 2010 Winter Olympics in Vancouver. This is China's first Olympic medal won in a winter sport category.

We continue to be a strategic partner of CCTV's Sports Channel

The Group is on its course to launch a specially-orchestrated TV commercial campaign that features 361 true stories about the affairs of individuals associated with love and the Games. This series, together with the new gear collections specially designed for the Games, will reinforce *361°* as a brand of choice for professional athletes to excel their performances and exhibit the true spirit of love in the event.

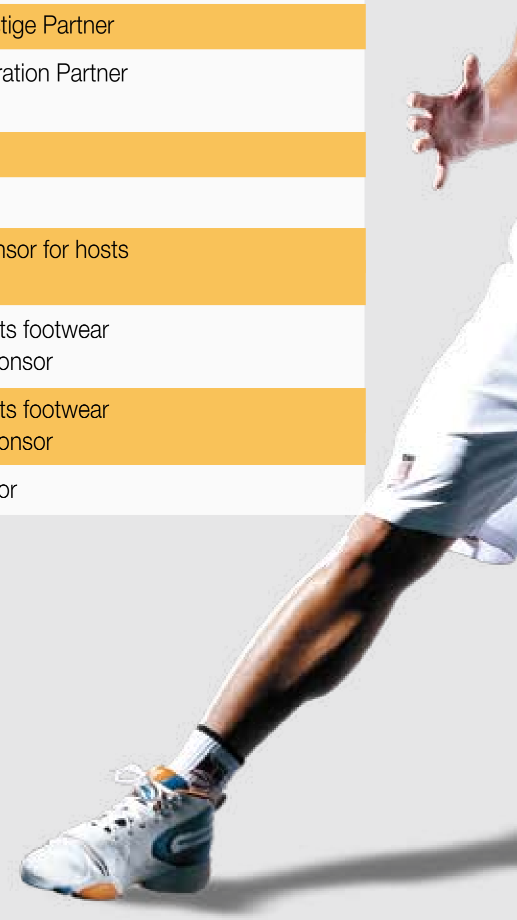
The Group became a sponsor of the 26th Summer Universiade 2011 to be held in Shenzhen. The "Universiade", also known as the "Small Olympics", is only next to the Olympic Games in international sports games in terms of scale. The Group will provide professional sports equipment and related services, including apparels for torchbearers, equipment for volunteers, helpers, government officials, referees and working staff. The sponsorship for this event constitutes an integral part of the Group's continuing efforts in promoting sports developments amongst university students.

With the support from the Group's distributors, the first "*361°* Town" was successfully opened in January 2010 on DeHua Shopping Street in Zhengzhou, Henan Province and the second one was opened in April 2010 in Jinan, Shangdong Province. *361°* Town represents a new generation of flagship stores that the Group aspires to establish in major locations in the country in the next few years. The design concept of this batch of new generation flagship stores communicates more effectively the latest mission of *361°* in establishing a more significant presence in the sportswear and equipment market in China.

Sponsorships of professional sports events

Multi-year sponsorship arrangements with sports events are one of the mainstays of the Group's promotional activities to generate and maintain the awareness in the market about the *361°* brand.

Time	Event	Capacity
2007-2010	*361°* China University Basketball Super League	Designated Partner
2010	Guangzhou 2010 Asian Games	Sportswear Prestige Partner
2010	Shanghai World Expo 2010	The First Cooperation Partner for Volunteers
2011	Summer Universiade 2011 Shenzhen	Global Partner
2009-2013	China Table Tennis Super League	Title Sponsor
2009-2013	CCTV Channel 5	Sportswear sponsor for hosts and journalists
2009-2013	China Zhengkai Marathon	Designated sports footwear and apparel sponsor
2009-2013	Jinmen Marathon	Designated sports footwear and apparel sponsor
2010-2015	China National Volleyball Tournaments	Sole Title Sponsor



Product design and development

Persistent deployment of resources to strengthen product design and development capabilities helps the Group stay on top of the latest technological advancements and styles. These efforts allow *361°* products to consistently meet the stringent requirements of professional athletes while accommodating changing consumer preferences for trends and styles.

The Group has independent research and development and design departments dedicated to footwear, apparel and accessory products. As of 30 June 2010, there were 95 full-time design professionals for the footwear R&D design department and 141 for the apparel and accessory R&D and design department.

There were also one footwear laboratory and one apparel laboratory to conduct tests and collect performance data. The Group currently owns 8 patents for footwear products. In collaboration with external design agencies, *361°* caters to consumer trends while echoing thematic elements from our integrated marketing campaigns to establish a unified image for our brand and products.

Production

As at the end of June 2010, there were 19 footwear production lines, up from 16 as at June 2009, in the Group's production base in the new Wuli Industrial Park and the existing Jinjiang production base with production capacity aggregating 16.2 million pairs a year. The 19 lines are scattered in both Wuli Industrial Park and the Group's old production base located in Jinjiang. The aggregate annual production capacity of the apparel production lines is 2.8 million pieces. As the majority of the apparel products sold by the Group sells are manufactured by third-party sub-contractors, this in-house apparel production operation primarily facilitates the management to grasp a better understanding of the production cost structures and latest apparel R&D and design trends.

This expansion pace was slightly faster than what had been originally budgeted as the management foresaw strong growth in demand and rapidly escalating equipment costs in the near future. The scale of apparel production, meanwhile, remained insignificant in relation to the Group's total and mainly serves as a testing ground for apparel products.

In January 2010, the Group formed a joint venture company based in Jinjiang, Fujian, specializing in the production of soles for footwear products. This venture is expected to commence operation in August 2010. The joint venture partner, First Union International Industrial Ltd., is an affiliated company of a company based in Taiwan which has more than 30 years of experience in designing and manufacturing rubber soles for sports footwear. This joint venture will help further enhance and ensure the quality of the Group's footwear products by securing supply of high-quality soles. It will enable the Group to become a fully vertically-integrated sports footwear manufacturer with the ability to manufacture all parts of sports footwear under one roof.

The Group will continue to adhere to its preset pace of adding **600-800** new outlets a year to its network, and to grow the size of the network to about **10,000** outlets in four years' time.

FINANCIAL REVIEW

Revenue

The Group experienced a solid year-on-year increase in turnover during the current financial year to RMB4,330.8 million from RMB3,446.6 million, up 25.7%, in line with the overall growth trends of the sportswear segment and the overall retail sector in China.

The Group's continuing efforts in promoting the *361°* brand through advertising and event sponsorships paid off with healthy increases of average selling prices at 9.4% for apparel products and 1.1% for footwear products. The lasting and escalating euphoria for the upcoming Guangzhou 2010 Asian Games continued to drive sales of the conceptual series specifically designed for the Game, albeit comprised a relatively small proportion to the Group's total sales both in volume and revenue terms.

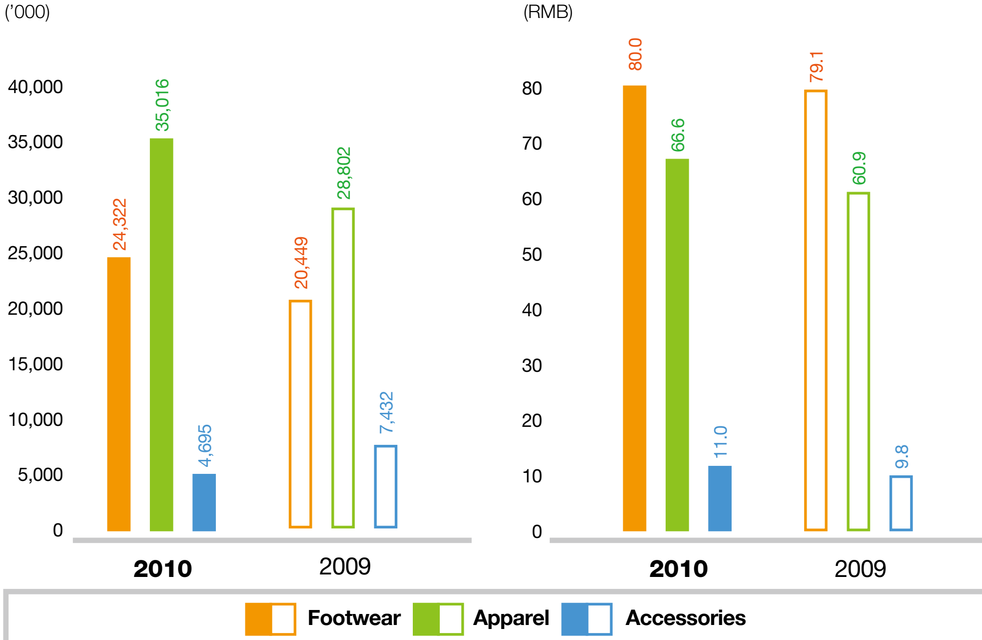
The newly-launched children's collection contributed about RMB37.6 million or 0.9% to the Group turnover during the year.

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

	For the financial year ended 30 June			
	2010		2009	
	Total units sold '000	Average wholesale selling price[(1)] RMB	Total units sold '000	Average wholesale selling price[(1)] RMB
***361°* Products**				
Footwear (pairs)	**24,322**	**80.0**	20,449	79.1
Apparel (pieces)	**35,016**	**66.6**	28,802	60.9
Accessories (pieces/pairs)	**4,695**	**11.0**	7,432	9.8

Units Sold
('000)

Average Wholesale Selling Price
(RMB)



Note:

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

By products categories, footwear comprised 44.9% of the total sales while apparel and accessories made up the remaining 53.8% and 1.3% respectively. This represented a healthy shift from the 60/40 split recorded in the first half of the financial year as delivery of apparel products for warmer weather ordered in trade fairs held earlier proceeded smoothly and caught up the previous slackening brought about by the exceptional cold weather.

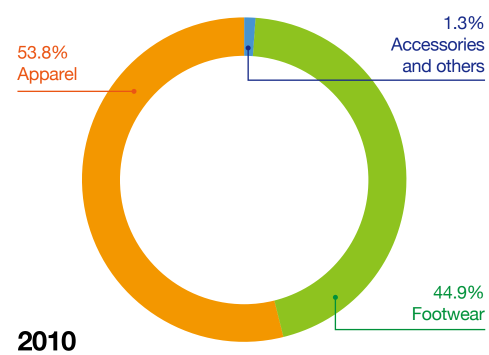
The following table sets forth a breakdown of the Group's turnover by products during the financial year:

	For the financial year ended 30 June				
	2010		2009		
		% of		% of	Change
	RMB'000	Turnover	RMB'000	Turnover	(%)
Turnover					
Footwear	**1,944,663**	**44.9**	1,616,979	46.9%	20.3
Apparel	**2,331,828**	**53.8**	1,754,936	50.9%	32.9
Accessories and others (1)	**54,313**	**1.3**	74,673	2.2%	(27.3)
Total	**4,330,804**	**100**	3,446,588	100%	25.7

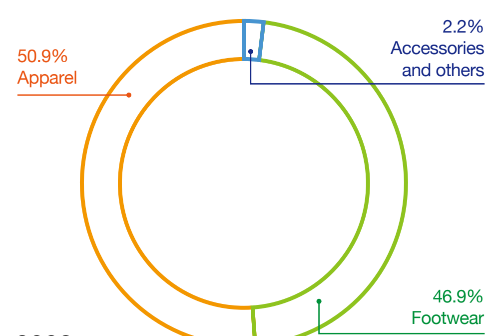
Note:

(1) "Others" included turnover from sales of raw materials.

Turnover Breakdown by Products

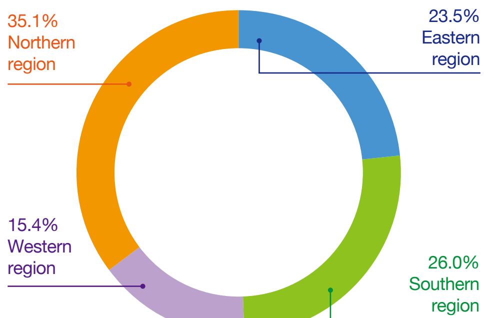


2010

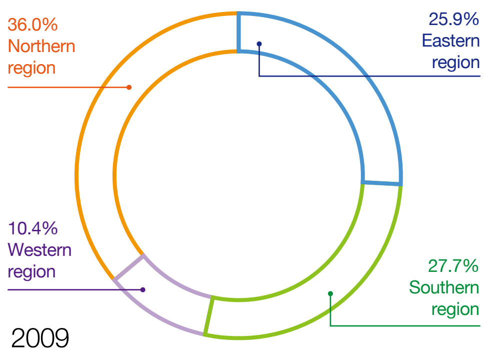


2009

Turnover Breakdown by Regions



2010



2009

The following table set forth a breakdown of the Group's turnover by regions during the financial year:

	For the financial year ended 30 June				
	2010		2009		
		% of		% of	Change
	RMB'000	**Turnover**	RMB'000	Turnover	(%)
Eastern region [1]	**1,018,589**	**23.5**	891,774	25.9	14.2
Southern region [2]	**1,126,740**	**26.0**	954,160	27.7	18.1
Western region [3]	**666,280**	**15.4**	358,334	10.4	85.9
Northern region[4]	**1,519,195**	**35.1**	1,242,320	36.0	22.3
Total	**4,330,804**	**100**	3,446,588	100	25.7

Notes:

(1) Eastern region includes Jiangsu, Zhejiang, Hubei, Anhui, Hunan, Shanghai and Jiangxi.

(2) Southern region includes Guangdong, Fujian, Guangxi and Hainan.

(3) Western region includes Sichuan, Yunnan, Guizhou, Shaanxi, Xinjiang, Gansu, Chongqing, Qinghai, Ningxia and Tibet.

(4) Northern region includes Shandong, Beijing, Liaoning, Heilongjiang, Hebei, Henan, Shanxi, Jilin, Tianjin and Inner Monogolia.

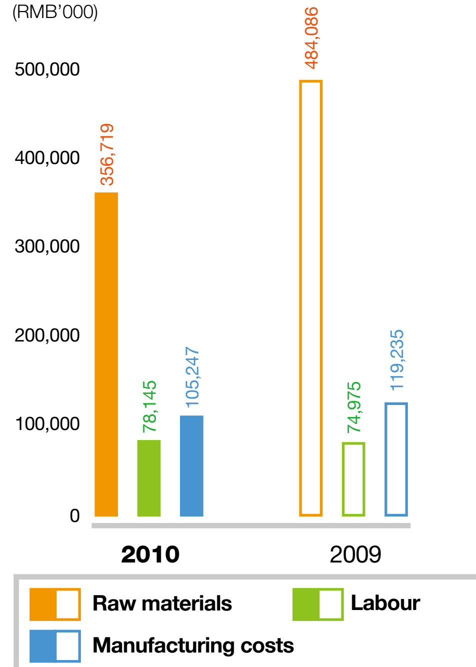
Cost of sales

Cost of sales for *361°* products increased by 16.5% from RMB2,250.4 million in the last financial year to RMB2,622.1 million during the current financial year, primarily as a result of an increase in sale of the *361°* products. The raw material consumption of self manufactured footwear and apparel decreased by 26.3% from RMB484.1 million in the last financial year to RMB356.7 million during the current financial year, primarily due to the decrease in the prices of a few major raw materials purchased in the year when compared to the last financial year. Labour costs for in-house footwear production increased by 4.2% from RMB75.0 million in the last financial year to RMB78.1 million during the current financial year, primarily because of the increase in the average salary of each direct labour in line with market trend and the increase in the number of labour for the demand of 3 new production lines which were installed and commenced operation in April 2010, representing about 3,900 direct labour as at 30 June 2009 to about 6,500 direct labour as at 30 June 2010. Internal production costs decreased by 20.4% from RMB678.3 million in the last financial year to RMB540.1 million during the current financial year, primarily because the raw material prices dropped relative to the last financial year and better control of manufacturing overhead. In the first half of the financial year, the Group spent a few months on improvement of higher quality control standard and production process for self manufactured products which resulted in the decline in the number of self produced products sold for the period. In the second half of the financial year, as 3 new production lines were installed and commenced operation in April to June 2010 respectively, production capacity of the Group increased thus the volume of the products produced compensated the lower number of products produced and sold in the first half of the financial year and as a result, the total volume of products produced in house and sold in the whole year was more or less the same as the last financial year. The Group expects the newly engaged labours will start to have significant contribution to the in-house production in the first half of the next financial year as they become more skillful. Outsourced production costs increased by 32.4% from RMB1,572.1 million in the last financial year to RMB2,082.0 million during the current financial year, primarily because the volume of footwear and apparel that the Group purchased from its contract manufacturers increased.

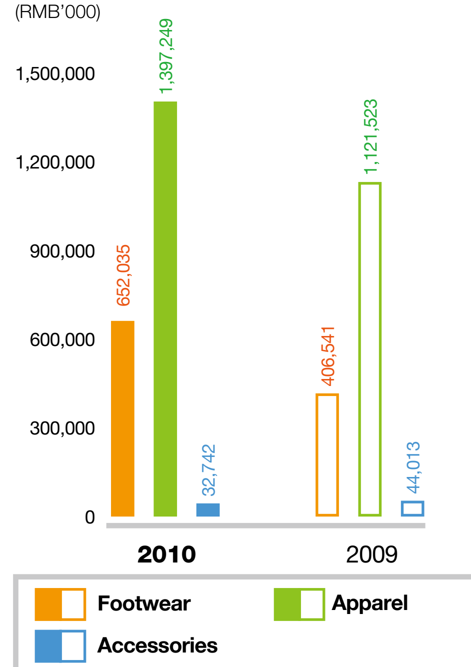
The following table sets forth a breakdown of cost of sales for *361°* products (excluding the cost of sales related to the sales of raw materials) during the financial year:

	For the financial year ended 30 June			
	2010		2009	
	RMB'000	% of total costs of sales	RMB'000	% of total costs of sales
***361°* Products**				
Footwear & Apparel (internal production)				
Raw materials	**356,719**	**13.6**	484,086	21.5
Labour	**78,145**	**3.0**	74,975	3.3
Manufacturing cots	**105,247**	**4.0**	119,235	5.3
Subtotal for internal production	**540,111**	**20.6**	678,296	30.1
Outsourced Products				
Footwear	**652,035**	**24.9**	406,541	18.1
Apparel	**1,397,249**	**53.3**	1,121,523	49.8
Accessories	**32,742**	**1.2**	44,013	2.0
Subtotal for outsourced products	**2,082,026**	**79.4**	1,572,077	69.9
Cost of sales for *361°* Products	**2,622,137**	**100**	2,250,373	100

Cost of Sales for 361° Products Internal Production
(RMB'000)



Cost of Sales for 361° Products Outsoured Products
(RMB'000)



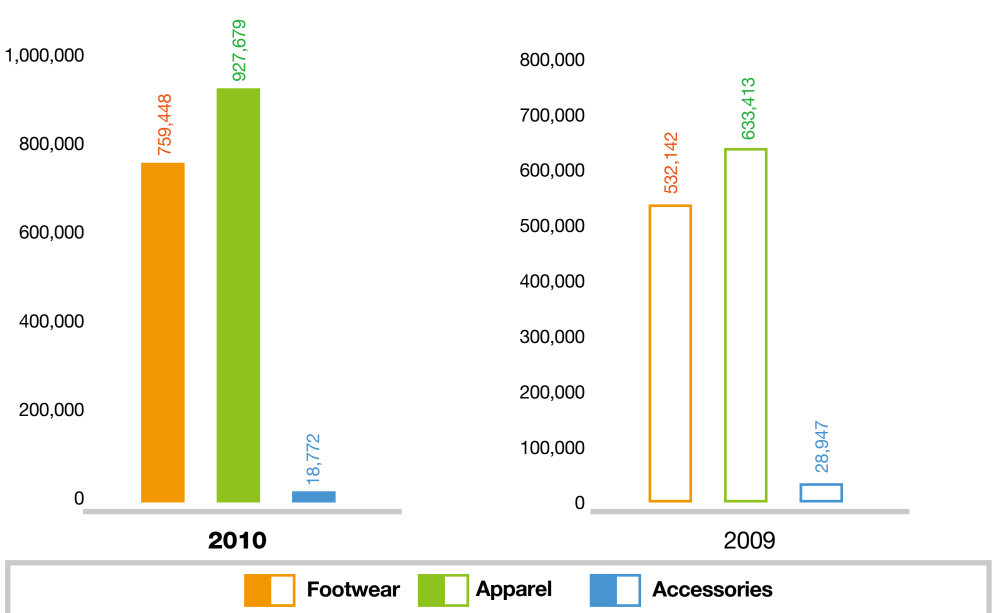
Gross profit and gross profit margin

Gross profit for *361°* products increased by 42.8% from RMB1,194.5 million in the last financial year to RMB1,705.9 million during the current financial year primarily due to the percentage increase in sales was much larger than the cost incurred in the year. The gross profit margin of *361°* products in the current financial year was 39.4%, compared with 34.7% of the last financial year, representing a growth in gross profit margin of 4.7 percentage points. 1.9 percentage point of such growth were contributed by both the increase in average selling price and the decrease in the cost of footwear and the balance of 2.8 percentage points were from the increase in the average selling price of apparel and accessories. Thanks to the ongoing enhancement of the image of the *361°* brand, product design and wider product offerings, the Group had been able to introduce higher-priced items to its product range, which received generally positive feedback from customers.

The following tables set 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 financial year:

	For the financial year ended 30 June			
	2010		2009	
	Gross profit RMB'000	**Gross profit margin %**	Gross profit RMB'000	Gross profit margin %
***361°* Products**				
Footwear	**759,448**	**39.1**	532,142	32.9
Apparel	**927,679**	**39.8**	633,413	36.1
Accessories	**18,772**	**36.4**	28,947	39.7
Total	**1,705,899**	**39.4**	1,194,502	34.7

Gross Profit by Products
(RMB'000)



Selling and distribution expenses

Selling and distribution expenses increased by 43.3% from RMB372.4 million in the last financial year to RMB533.5 million during the current financial year, primarily as a result of an increase in the advertising and marketing expenses in relation to television advertising and sponsorships.

During the current financial year, selling and distribution expenses represented 12.3% of the Group's turnover of which 8.9% was advertising and promotional expenses which was roughly the same as the last financial year as compared to the selling & distribution expenses of 10.8% in the last financial year, the advertising and promotional expenses also contributed to about 8.2% of the Group's turnover. The Group plans to continue to spend its advertising and promotion expenses of around 10-11% to maintain the appeal of the *361°* brand.

Administrative expenses

Administrative expenses increased by 73.7% from RMB89.2 million in the last financial year to RMB155.0 million during the current financial year, mainly resulting from increases in research and development expenses, salaries and welfare payments and depreciation.

For the year ended 30 June 2010, administrative expenses represented about 3.6% of the Group's turnover of which 0.9% was research and development expenses, as compared to 2.6% in the last financial year, of which the research and development expenses only contributed to 0.4% of the Group's turnover. The increase was mainly due to the increase in the number of the research & development staff; the amount spent on the sub-contractors for the products development and the consumables for the research and development laboratory. Salaries and welfare payments increased from 0.4% of the total turnover to 0.9% in the current financial year, which was mainly due to the recruitment of four new vice presidents, a general manager and more managerial staff were recruited to cope with the expansion of the Group's business during the year. The four vice presidents and the general manger are currently in charge of the areas of investor relations, footwear business, information technology, apparel business and children's wear, respectively. For details of their biographies, please refer to the section of "Director and Senior Management" in the annual report. Depreciation, which contributed about 0.1% of the Group's turnover in the last financial year, increased to about 0.3% in this financial year. Such increase was caused by the establishment of a new headquarters in Xiamen in January 2010, and the property and office equipment started to depreciate in this financial year.

Income tax expenses

During the financial year under review, income tax expense of the Group amounted to RMB133.7 million (2009: RMB92.3 million) mainly because of the significant increase in net profit before tax, with an effective tax rate at 12.7% (2009: 12.7%).

Under the PRC Tax Law, one of our subsidiaries could still enjoy a full exemption of tax which helped to lower our overall effective tax rate in the first half of the financial year to about 10.8%. Commencing from the calendar year of 2010, this subsidiary was taxed at 12.5% and for the subsequent three years until 31 December 2012, representing a 50% reduction on the enterprise income tax rate of 25.0%. The overall effective tax rate for the second half financial year thus increased to about 14.0%.

Profit attributable to equity shareholders of the Company

As compared to the last financial year, profit attributable to equity shareholders of the Company for the current financial year increased from RMB632.1 million to RMB916.8 million, representing a growth of 45.0%. This was mainly attributed to the growth in gross profit and increase in sales volume. Earnings per share for the year were RMB44.5 cents, up 5.7% from the previous financial year.

Dividend for the year

The Board recommended a final dividend of RMB9.0 cents (equivalent to HK10.3 cents) per share, subject to approval by the shareholders at the forthcoming annual general meeting. Including the interim dividend of RMB4.3 cents (equivalent to HK4.9 cents) per share for the six months ended 31 December 2009 already paid, total payout for the year amounted to RMB13.3 cents (equivalent to HK15.2 cents) per share or RMB274.7 million in aggregate, representing 30.0% of the profit attributable to equity shareholders of the Company for the financial year. It is expected that the final dividend, if approved by shareholders at the forthcoming annual general meeting of the Company, will be paid to shareholders by 30 October 2010.

Liquidity and Financial Resources

During the current year, net cash inflow from operating activities of the Group amounted to RMB1,125.5 million (2009: RMB555.0 million). As at 30 June 2010, cash and cash equivalents, including bank deposits and cash in hand, and fixed deposits with original maturities not exceeding three months, amounted to RMB1,554.6 million, representing a net decrease of RMB429.0 million as compared to the position as at 30 June 2009. The decrease was attributed to the following items:

	For the year ended 30 June 2010 RMB'000	For the year ended 30 June 2009 RMB'000
Net cash inflow generated from operating activities	**1,125,490**	555,035
Net capital expenditure	**(358,262)**	(152,160)
Dividends paid	**(223,065)**	(76,742)
Proceeds from new bank loans	**224,000**	405,500
Repayment of bank loans	**(491,000)**	(288,000)
Proceeds from new shares issued, net of issuing expenses	**200,878**	1,479,172
Placement of fixed deposit (with maturity over three months)	**(936,085)**	–
Other net cash inflow/(outflow)	**29,084**	(48,154)
Net (decrease)/increase in cash and cash equivalents	**(428,960)**	1,874,651

The Group has always been pursuing 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 2010, total available banking facilities of the Group amounted to RMB1,780.0 million, among which the amount of outstanding bank borrowings and bills payables were RMB Nil and RMB382.0 million respectively. The ratio of outstanding bank borrowings to equity holders' equity was zero (2009: 10.6%).

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

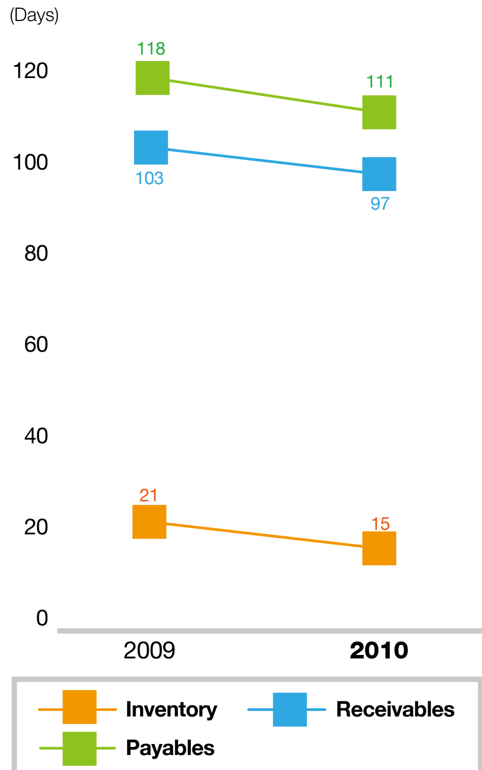
Foreign exchange risk

During the current year, the Group did not hedge any exposure in foreign currency risk as 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.

Pledge of assets

As at 30 June 2010, the Group secured its bank facilities by buildings with a carrying amount of RMB Nil (2009: RMB42.3 million) and land with a carrying amount of RMB32.7 million (2009: RMB38.5 million).

Working Capital Turnover Days



Working Capital Management

The Group has endeavored to tighten its working capital management to allow better visibility of its working capital resources and financial health.

Average inventory turnover cycle for the financial year was 15 days, down from 21 days a year ago, mainly due to the more effective inventory control and management.

Average trade and bills receivables turnover cycle shortened to 97 days from 103 days in the previous year, primarily because the Group adhered strictly to its preset pace of adding about 600-800 outlets to its network per year which lowered the liquidity stress on the distributors and thus tightened the cycle. The number of outlets opened in the current financial year was 872 which was much fewer than the 1423 outlets opened in the last financial year.

Average trade and bills payables cycle for the year was 111 days compared to 118 days a year ago, representing an average trade payable cycle of 62 days compared to 80 days in the previous year, and with the average bills payable cycle remained at approximately 180 days in both years. As the Group has sufficient cash on hand and would like to maintain the trade payable cycle at around 60 days, some of the debts were repaid prior to expiry of the credit terms granted by suppliers.

USE OF PROCEEDS

Use of Net Proceeds from the Global Offering

The shares of the Company were listed on the main board of the Hong Kong Stock Exchange on 30 June 2009 with net proceeds from the global offering of approximately HKD1,905.4 million (after deducting underwriting commissions and related expenses).

Net proceeds from the global offering (HKD million)

Use of net proceeds	Available to utilise	Utilised (as at 30 June 2010)	Unutilised (as at 30 June 2010)
Developing and increasing brand awareness	741.2	439.0	302.2
Developing new production facilities	613.5	408.5	205.0
Developing children's footwear and apparel sub-brand	171.5	22.2	149.3
Establish of a new product testing and R&D laboratory	114.3	23.8	90.5
Establish an ERP system	74.3	4.2	70.1
General working capital	190.6	190.6	—
	1,905.4	1,088.3	817.1

Employees and emoluments

As at 30 June 2010, the Group employed a total of 8,408 full time employees in the PRC which included management staff, technicians, salespersons and workers. For the year ended 30 June 2010, the Group's total expenses on the remuneration of employees was RMB156.2 million, representing 3.6% 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 (operation in accordance with 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

The Group believes that China's ongoing rapid economic growth and urbanization will continue to maintain a favorable environment for the sportswear sector as a whole. Disposable income of urban residents continues its steady rising trend. The association of disposable income with volume of consumption in apparels and footwear continued to be strong.

The country continues to welcome the hosting of major international sports events such as the Asian Games. This will help maintain and articulate consumers' attention to these events, contributing to the ongoing development of the sporting goods industry.

While new entrants will keep on emerging and the industry's size will continue to grow, the Group believes that new entrants are in a more disadvantageous position to compete head on with incumbent participants. This is primarily due to the fact that following the last decade of exceptional growth of the industry, entry barriers in terms of minimal capital expenditure requirements, minimal size of distribution network for a meaningful national footprint, the lowest advertizing and promotion budget to make a new brand known to the average consumer pool have all reached levels that new entrants cannot easily afford.

Based on the current momentum, the *361°* brand has already reached the critical mass it needed in terms of awareness. It implies further endeavors to promote the brand and its products will bring in better incremental benefits than those peers positioned lower in the league.

The Group is particularly optimistic about the *361°* Children's Collection. This is an area that major competitors in the industry had not previously explored but commanding very promising prospects. The Group plans to open about 300 outlets for this collection every year. While it will take time for this collection to make reasonably substantial contributions to the Group's total revenue, this collection will become a major growth driver for the Group going forward.

The Group has endeavored to reinforce its leading position and excel in distribution, product design and innovation. Given the favorable market landscape and momentum, the Group is confident about achieving progressively better returns for shareholders.

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 2010.

Registered office and principal place of business in Hong Kong

361 Degrees International Limited ("the Company") is a company incorporated and domiciled in 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 Rm 3901, 39/F, COSCO Tower, 183 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 13 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	18%	
Five largest customers in aggregate	45%	
The largest supplier		4%
Five largest suppliers in aggregate		19%

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.

Financial statements

The profit of the group for the year ended 30 June 2010 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 44 to 100.

Transfer to reserves

Profits attributable to equity shareholders, before dividends, of RMB916,814,000 (2009: RMB632,111,000) have been transferred to reserves. Other movements in reserves are set out in the consolidated statement of changes in equity.

An interim dividend of RMB4.3 cents per share was paid on 16 April 2010. The directors recommend, subject to the shareholders approval at the forthcoming annual general meeting, the payment of a final dividend of RMB9.0 cents per share (2009: RMB6.5 cents per share) for the year ended 30 June 2010.

Charitable donations

Charitable donations made by the Group during the financial year amounted to RMB3,860,000 (2009: RMB3,313,000).

Fixed assets

Details of the movements in fixed assets during the year are set out in note 12 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 24(c) to the financial statements. Shares were issued during the financial year for issuance of new shares pursuant to the partial exercise of the over-allotment option in connection with the global initial public offering.

Purchases, sales or redemptions of the Company's securities

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.

Directors

The directors during the financial year were:

Executive directors
Mr Ding Huihuang, Chairman
Mr Ding Wuhao, President
Mr Ding Huirong, Vice-president
Mr Wang Jiabi, Vice-president

Independent non-executive directors
Mr Mak Kin Kwong
Mr Sun Xianhong
Mr Liu Jianxing

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 to Articles 84 and 85 of the Articles of the Association of the Company, Mr Ding Huirong, Mr Wang Jiabi and Mr Liu Jianxing 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 purposed 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 2010, 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 Listing 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	18.16%
Mr Ding Huihuang (2)	Interest in controlled corporation	360,000,000	17.43%
Mr Ding Huirong (3)	Interest in controlled corporation	360,000,000	17.43%
Mr Wang Jiabi (4)	Interest in controlled corporation	187,500,000	9.08%

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 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 2010, 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 scheme

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 global 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 manner and, in any event, cannot be exercised for a period of twelve months from 30 June 2009:

Exercise period

	Number of options '000	Commencement of exercise period	Maximum percentage of options exercisable
Date of grant of Options:			
— 10 June 2009	6,114	One year from the date of listing of the Company's shares	30%
— 10 June 2009	6,114	Two years from the date of listing of the Company's shares	30%
— 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 2010.

The options period shall commence on 30 June 2010 and expire on 30 June 2014.

Share Option Scheme

The Company has adopted a Share Option Scheme on 10 June 2009 for the purpose of motivating eligible persons to optimise 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 2010.

Information on the accounting policy for share options granted and the weighted average value per option is provided in note 2(l)(ii) and note 22 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 2010, 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 the any class of share capital carrying rights to vote in all circumstances at general meeting 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	18.16%
Ming Rong International Company Limited	(2)	360,000,000	17.43%
Hui Rong International Company Limited	(3)	360,000,000	17.43%
Jia Wei International Co., Ltd.	(4)	187,500,000	9.08%
Jia Chen International Co., Ltd.	(5)	187,500,000	9.08%

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 Whuao 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 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 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.

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 completing business

As at 30 June 2010, 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, 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 2010, 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 2010.

Bank loans and other borrowings

Particulars of bank loans and other borrowings of the Group as at 30 June 2010 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 4 and 5 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 the eligible employees' salaries 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 2010 amounted to RMB4,454,000 (2009: RMB3,142,000).

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 enquiring 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 2010.

Audit Committee

The Audit Committee has reviewed with management and the external auditor the accounting principles and polices adopted by the Group and the audited annual consolidated financial statements for the year ended 30 June 2010.

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, 24 August 2010

The Company has made continuous effort to ensure high standards of corporate governance. The principles of corporate governance adopted by the Company emphasizes a quality board, sound internal controls and accountability to shareholders and these are based upon an established ethical corporate culture.

CORPORATE GOVERNANCE PRACTICES

In the opinion of the Directors, the Company has applied the principles and complied with all the code provisions as set out in the Code on Corporate Governance Practices (the "CG Code") contained in the Appendix 14 of the Listing Rules during the year ended 30 June 2010.

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. The management was delegated the authority and responsibilities by the Board for the day-to-day management and operations of the Group.

As at 30 June 2010, 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	Audit Committee	Remuneration Committee	Nomination Committee
Executive Directors				
Mr. Ding Huihuang (Chairman)	10/11	N/A	N/A	N/A
Mr. Ding Wuhao (President)	11/11	N/A	N/A	1/1
Mr. Ding Huirong (Vice President)	9/11	N/A	N/A	N/A
Mr. Wang Jiabi (Vice President)	9/11	N/A	1/1	N/A
Independent Non-executive Directors				
Mr. Mak Kin Kwong	3/11	3/3	N/A	1/1
Mr. Sun Xianhong	3/11	3/3	1/1	N/A
Mr. Liu Jianxing	3/11	3/3	1/1	1/1

Note: Number of meetings attended/(number of meetings 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 2010, 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.

The audit committee has held three meetings since its establishment to 30 June 2010 to discuss the auditing, internal controls and financial reporting matters of the Company, including the review of the consolidated results of the Group for the year ended 30 June 2009 and six months ended 31 December 2009 and the engagement of internal auditor.

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.

The remuneration committee has held one meeting since its establishment to 30 June 2010 to review and approve the remuneration packages of Directors and senior management of the Group for the year ended 30 June 2010.

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. During the year ended 30 June 2010, no additional Director was appointed.

The nomination committee has held one meeting since its establishment to 30 June 2010 to nominate the members of board for retirement and re-election at the forthcoming Annual General Meeting.

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 2010, the remuneration paid or payable to the Group's auditors, KPMG, in respect of their audit and non-audit services are as follows:

	2010	2009
Initial public offering	N/A	HK$8,180,000
Interim review	HK$1,010,000	—
Statutory audit services	HK$2,100,000	HK$800,000
Non-audit services	HK$300,000	HK$1,088,124
Total	**HK$3,410,000**	**HK$10,068,124**

During the year, the Group appointed SHINEWING Risk Services Limited as the independent adviser to carry out an internal control review for the year, which is non-audit service by nature, at a fee of HK$300,000.

Last 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 45, 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 15 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 44, 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 15 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 38, 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 15 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.

Mr. Wang Jiabi (王加碧), aged 52, 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 has completed an EMBA programme offered by Peking University (北京大學) in January 2010.
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 48, 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 47, 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 35, is an independent non-executive Director of the Company. Mr. Liu has approximately five years of experience in macroeconomics and policy research. Mr. Liu is currently the 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.

SENIOR MANAGEMENT

Mr. Xia Youqun (夏友群), aged 41, 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.

Ms. Choi Mun Duen (蔡敏端), aged 41, 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.

Mr. Chen Yongling (陳永靈), aged 36, 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. Chen Yuen Feng (陳遠逢), aged 56, is the vice-president of investor relations and is primarily responsible for the Group's investor relationship. He joined the Group in November 2009. Mr. Chen was admitted as an associate member of the Institute of Chartered Accountants in England and Wales in 1980.

Mr Chen Zhi Cheng (陳志誠), aged 52, is the general manager of children's wear business of the Group and is primarily responsible for the Group's daily operation and management of children's wear series. He possesses over 17 years of experience in managing renowned international children's wear brands in the children's wear industry of China and Taiwan. He joined the Group in May 2009 and received his bachelor's degree in business administration from National Cheng Kung University in Taiwan in 1981.

Mr Lou Sen (羅森), aged 48, is the vice president of footwear business and is primarily for the overall daily operation and management of the Group's footwear business. He possesses over 16 years of experience in managing renowned international footwear brands. He joined the Group in December 2009 and gained his bachelor's degree from Henan Institute of Education in 1982.

Mr Lin Wen Bin (林文彬), aged 45, is the vice president of information department and primarily responsible for overall network planning, integrating data stream and managing ERP information system deployment. He has over 14 years of experience in information system related work and has worked in a world-renowned corporate consulting services company. He joined the Group in February 2010 and received his EMBA and MBA and his bachelor's degree in Industrial Engineering Management from Peking University and National Taiwan University of Science and Technology in 2005, 1991 and 1993.

Ms Tang Li Jun (湯麗軍), aged 47, is the vice president of apparel business of the Group and primarily responsible for strategies, structure building and management of the Group's apparel business. She has more than 10 years of experience in managing famous domestic brands and joined the Group in March 2010. She received her EMBA from Cheung Kong Graduate School of Business in 2009.

Mr. Hou Zhaohui (候朝輝), aged 34, 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 5 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 39, 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.

Mr. Wang Zhiqian (王志謙), aged 38, 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.

Ms. Zhao Jingli (趙京利), aged 52, 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 35, is the head of the Group's brand department and is primarily responsible for the Group's overall brand management. Mr. Ling has approximately 5 years of experience in brand management. He joined the Group 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 36, 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 12 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 48, 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 15 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.

Ms Lin Mei Yun (林美雲), aged 40, is the head of shoes production department and primarily responsible for the Group's footwear production management. She has more than 19 years of experience in footwear production management in China and joined the Group in October 2009.

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 44 to 100, which comprise the consolidated and company balance sheets as at 30 June 2010, and the consolidated income statement, the consolidated statement of comprehensive income, 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 2010 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.

KPMG
Certified Public Accountants

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

24 August 2010

Consolidated Income Statement

for the year ended 30 June 2010
(Expressed in Renminbi)

	Note	2010 RMB'000	2009 RMB'000
Turnover	4	**4,330,804**	3,446,588
Cost of sales		**(2,624,479)**	(2,252,785)
Gross profit		**1,706,325**	1,193,803
Other revenue	5	**32,478**	8,061
Other net gain/(loss)	5	**1,558**	(56)
Selling and distribution expenses		**(533,461)**	(372,364)
Administrative expenses		**(155,048)**	(89,244)
Profit from operations		**1,051,852**	740,200
Finance costs	6(a)	**(3,326)**	(15,800)
Profit before taxation	6	**1,048,526**	724,400
Income tax	7(a)	**(133,677)**	(92,289)
Profit for the year		**914,849**	632,111
Attributable to:			
Equity shareholders of the Company	10	**916,814**	632,111
Non-controlling interests		**(1,965)**	—
Profit for the year		**914,849**	632,111
Earnings per share	11		
Basic (cents)		**44.5**	42.1
Diluted (cents)		**44.3**	42.1

The notes on pages 52 to 100 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in note 24(b).

Consolidated Statement of Comprehensive Income

for the year ended 30 June 2010
(Expressed in Renminbi)

	2010 RMB'000	2009 RMB'000
Profit for the year	**914,849**	632,111
Other comprehensive income for the year		
Exchange differences on translation of financial statements	**(16,855)**	1,328
Total comprehensive income for the year	**897,994**	633,439
Attributable to:		
Equity shareholders of the Company	**899,959**	633,439
Non-controlling interests	**(1,965)**	—
Total comprehensive income for the year	**897,994**	633,439

The notes on pages 52 to 100 form part of these financial statements.

Consolidated Balance Sheet

at 30 June 2010
(Expressed in Renminbi)

	Note	2010 RMB'000	2009 RMB'000
Non-current assets			
Fixed assets	12		
— Property, plant and equipment		**566,239**	246,627
— Interests in leasehold land held for own use under operating leases		**84,768**	86,545
		651,007	333,172
Deposits and prepayments	15	**54,910**	—
Deferred tax assets	23(b)	**18,657**	—
		724,574	333,172
Current assets			
Inventories	14	**132,836**	83,637
Trade and other receivables	15	**1,114,736**	1,591,795
Pledged bank deposits	16	**101,200**	86,700
Deposits with banks		**936,085**	—
Cash and cash equivalents	17	**1,554,586**	1,983,546
		3,839,443	3,745,678
Current liabilities			
Trade and other payables	18	**1,019,830**	1,227,297
Bank loans	19	**—**	267,000
Current taxation	23(a)	**109,545**	64,851
		1,129,375	1,559,148
Net current assets		**2,710,068**	2,186,530
Total assets less current liabilities		**3,434,642**	2,519,702
Non-current liabilities			
Deferred tax liabilities	23(b)	**3,125**	9,504
NET ASSETS		**3,431,517**	2,510,198

Consolidated Balance Sheet (continued)

at 30 June 2010
(Expressed in Renminbi)

	Note	2010 RMB'000	2009 RMB'000
CAPITAL AND RESERVES			
Share capital	24(c)	**182,109**	176,340
Reserves		**3,214,314**	2,333,858
Total equity attributable to equity shareholders of the Company		**3,396,423**	2,510,198
Non-controlling interests		**35,094**	—
TOTAL EQUITY		**3,431,517**	2,510,198

Approved and authorised for issue by the board of directors on 24 August 2010

DING WUHAO
Director

DING HUIHUANG
Director

The notes on pages 52 to 100 form part of these financial statements.

Balance Sheet

at 30 June 2010
(Expressed in Renminbi)

	Note	2010 RMB'000	2009 RMB'000
Non-current asset			
Investment in subsidiary	13	**1**	1
Current assets			
Amounts due from subsidiaries	20	**863,234**	143,223
Other receivables	15	**3,733**	—
Deposits with banks		**718,685**	—
Cash and cash equivalents	17	**352**	1,527,991
		1,586,004	1,671,214
Current liabilities			
Amounts due to subsidiaries	20	**12,717**	20,660
Other payables	18	**8,916**	34,635
		21,633	55,295
Net current assets		**1,564,371**	1,615,919
NET ASSETS		**1,564,372**	1,615,920
CAPITAL AND RESERVES	24(a)		
Share capital		**182,109**	176,340
Reserves		**1,382,263**	1,439,580
TOTAL EQUITY		**1,564,372**	1,615,920

Approved and authorised for issue by the board of directors on 24 August 2010

DING WUHAO
Director

DING HUIHUANG
Director

The notes on pages 52 to 100 form part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 30 June 2010
(Expressed in Renminbi)

		Attributable to equity shareholders of the Company										
	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	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 July 2008		82,724	–	–	–	33,231	–	13,324	188,307	317,586	–	317,586
Changes in equity for the year ended 30 June 2009:												
Shares issued upon incorporation	24(c)	1	–	–	–	–	–	–	–	1	–	1
Capitalisation issue	24(c)(i)	132,254	(132,254)	–	–	–	–	–	–	–	–	–
Shares issued under placing and public offering, net of issuing expenses	24(c)(ii)	44,085	1,435,087	–	–	–	–	–	–	1,479,172	–	1,479,172
Increase in reserve arising on Reorganisation		(82,724)	–	156,252	82,724	–	–	–	–	156,252	–	156,252
Equity-settled share-based transactions		–	–	–	–	–	490	–	–	490	–	490
Total comprehensive income for the year		–	–	–	–	–	–	1,328	632,111	633,439	–	633,439
Appropriation to statutory reserve		–	–	–	–	94,507	–	–	(94,507)	–	–	–
Dividends declared and paid during the year	24(b)	–	–	–	–	–	–	–	(76,742)	(76,742)	–	(76,742)
Balance at 30 June 2009 and 1 July 2009		176,340	1,302,833	156,252	82,724	127,738	490	14,652	649,169	2,510,198	–	2,510,198
Changes in equity for the year ended 30 June 2010:												
Shares issued under placing, net of issuing expenses	24(c)(ii)	5,769	195,109	–	–	–	–	–	–	200,878	–	200,878
Capital contribution received by a non-wholly owned subsidiary from non-controlling shareholder		–	–	–	–	–	–	–	–	–	37,059	37,059
Equity-settled share-based transactions		–	–	–	–	–	8,453	–	–	8,453	–	8,453
Total comprehensive income for the year		–	–	–	–	–	–	(16,855)	916,814	899,959	(1,965)	897,994
Appropriation to statutory reserve		–	–	–	–	140,497	–	–	(140,497)	–	–	–
Dividends declared and paid during the year	24(b)	–	(88,813)	–	–	–	–	–	(134,252)	(223,065)	–	(223,065)
Balance at 30 June 2010		182,109	1,409,129	156,252	82,724	268,235	8,943	(2,203)	1,291,234	3,396,423	35,094	3,431,517

The notes on pages 52 to 100 form part of these financial statements.

Consolidated Cash Flow Statement

for the year ended 30 June 2010
(Expressed in Renminbi)

	Note	2010 RMB'000	2009 RMB'000
Operating activities			
Profit before taxation		**1,048,526**	724,400
Adjustments for:			
— Depreciation	6(c)	**22,796**	9,282
— Amortisation of land lease premium	6(c)	**1,777**	1,420
— Finance costs	6(a)	**3,326**	15,800
— Interest income	5	**(14,360)**	(1,691)
— Net loss on disposal of fixed assets	5	**239**	56
— Equity-settled share-based payment expenses	6(b)	**8,453**	490
— Effect of foreign exchange rates changes		**(16,855)**	1,328
Operating profit before changes in working capital		**1,053,902**	751,085
(Increase)/decrease in inventories		**(49,199)**	97,419
Decrease/(increase) in trade and other receivables		**481,568**	(917,471)
Decrease in amounts due from related parties		**—**	38,017
(Decrease)/increase in trade and other payables		**(246,762)**	612,287
Cash generated from operations		**1,239,509**	581,337
People's Republic of China ("PRC") income tax paid		**(114,019)**	(26,302)
Net cash generated from operating activities		**1,125,490**	555,035
Investing activities			
Payment for the purchase of fixed assets		**(358,262)**	(152,160)
Proceeds from disposal of fixed assets		**—**	52
Increase in pledged bank deposits		**(14,500)**	(48,200)
Increase in deposits with banks		**(936,085)**	—
Interest received		**9,851**	1,691
Net cash used in investing activities		**(1,298,996)**	(198,617)

Consolidated Cash Flow Statement (continued)

for the year ended 30 June 2010
(Expressed in Renminbi)

	Note	2010 RMB'000	2009 RMB'000
Financing activities			
Proceeds from new bank loans		**224,000**	405,500
Repayment of bank loans		**(491,000)**	(288,000)
Proceeds from new shares issued, net of issuing expenses	24(c)(ii)	**200,878**	1,479,172
Capital contribution received by a non-wholly owned subsidiary from non-controlling shareholder		**37,059**	—
Increase in amounts due to a shareholder of the Company		**—**	14,103
Interest paid		**(3,326)**	(15,800)
Dividends paid	24(b)	**(223,065)**	(76,742)
Net cash (used in)/generated from financing activities		**(255,454)**	1,518,233
Net (decrease)/increase in cash and cash equivalents		**(428,960)**	1,874,651
Cash and cash equivalents at the beginning of the year		**1,983,546**	108,895
Cash and cash equivalents at the end of the year	17	**1,554,586**	1,983,546

The notes on pages 52 to 100 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 and become the holding company of the Group on 15 August 2008.

For the year ended 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 were prepared as if the current group structure had been in existence throughout the year ended 30 June 2009, 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.

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

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have 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 disclosure 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 ("the Listing Rules"). 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 2010 comprise the Company and its subsidiaries.

The Company and other investment holding subsidiaries incorporated in the British Virgin Islands (the "BVI") and Hong Kong have their functional currency in Hong Kong dollars and subsidiaries established in the PRC have their functional currency in Renminbi ("RMB"). As the Group mainly operates in the PRC, RMB is used as the presentation currency of the Group's financial statements. All financial information presented is rounded to the nearest thousand except otherwise stated. The measurement basis used in the preparation of the financial statements is the historical costs basis.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Basis of preparation of the financial statements *(continued)*

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 major sources of uncertainty are discussed in note 28.

(c) Basis of consolidation

(i) Subsidiaries and non-controlling interests

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 profits arising from intra-group transactions are 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.

Non-controlling interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Non-controlling interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated income statement and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company, even if this results in a deficit balance within consolidated equity being attributed to the non-controlling interests.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(c) Basis of consolidation *(continued)*

(i) Subsidiaries and non-controlling interests (continued)

Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated balance sheet in accordance with notes 2(i) or 2(j) depending on the nature of the liability.

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

(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

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.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(d) Property, plant and equipment *(continued)*

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
—	Office equipment and other fixed assets	2 - 10 years
—	Motor vehicles	5 years

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.

(f) Impairment of assets

(i) Impairment of receivables

Current and non-current 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.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(f) Impairment of assets *(continued)*

(i) Impairment of receivables (continued)

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.

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 are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors included within trade and other receivables whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts 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 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;

— interests 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.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(f) Impairment of assets *(continued)*

(ii) Impairment of other assets (continued)

— Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs to sell 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).

— Recognition of impairment losses

An impairment loss is recognised in profit or loss if 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.

(Expressed in thousands of Renminbi unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(g) Inventories *(continued)*

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 occur.

(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.

(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.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(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 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 vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the resulting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the 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 is vested (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 in other comprehensive income or directly in equity, in which case they are recognised in other comprehensive income or directly in equity, respectively.

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 unused tax credits.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(m) Income tax *(continued)*

Apart from certain limited exceptions, 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 include those that 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 asset 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.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

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 profits 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 Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

— 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

— 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.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(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 expenditure expected to settle the obligation.

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

Revenue is measured at the fair value of the consideration received or receivable. 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.

(p) Translation of foreign currencies

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.

The results of entities with functional currency other than RMB 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 closing foreign exchange rates at the balance sheet date. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a subsidiary with functional currency other than RMB, the cumulative amount of the exchange differences relating to that subsidiary is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(q) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditures for the asset are being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(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 these 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 *(continued)*

(t) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Management has determined operating segments with reference to the reports reviewed by the chief operating decision maker of the Group that are used to assess the performance and allocate resources.

The chief operating decision maker of the Group assesses the performance and allocates the resources of the Group as a whole, as all of the Group's activities are considered to be primarily dependent on the performance of manufacturing and distribution of sporting goods including footwear, apparel and accessories. Therefore, management considers there is only one operating segment under the requirements of HKFRS 8, Operating Segments. In this regard, no segment information is presented.

No geographic information is shown as the turnover and profit from operation of the Group are derived from activities in the PRC.

3 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued one new HKFRS, two revised HKFRSs, a number of amendments to HKFRSs and new Interpretations that are first effective for the current accounting period of the Group and the Company as follows:

— HKAS 1 (revised 2007), *Presentation of financial statements*

— HKFRS 3 (revised 2008), *Business combinations*

— Amendments to HKFRS 5, *Non-current assets held for sale and discontinued operations — plan to sell the controlling interest in a subsidiary*

— Amendments to HKFRS 7, *Financial instruments: Disclosures-improving disclosures about financial instruments*

— HKFRS 8, *Operating segments*

— Improvements to HKFRSs (2008)

— Amendments to HKAS 27, *Consolidated and separate financial statements*

— HKAS 23 (revised 2007), *Borrowing costs*

— Amendments to HKFRS 2, *Share-based payment — vesting conditions and cancellations*

— Amendments to HKAS 39, *Financial instruments: Recognition and measurement — eligible hedged items*

3 CHANGES IN ACCOUNTING POLICIES *(continued)*

— HK(IFRIC) 15, *Agreements for the construction of real estate*

— HK(IFRIC) 16, *Hedges of a net investment in a foreign operation*

— HK(IFRIC) 17, *Distribution of non-cash assets to owners*

— HK(IFRIC) 18, *Transfers of assets from customers*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 29).

The improvements to HKFRSs (2008), amendments to HKAS 23, HKAS 39, HKFRS 2, HKFRS 5, HKFRS 7 and HKFRS 8 and Interpretations HK(IFRIC) 15, HK(IFRIC) 16 and HK(IFRIC) 18 have had no material impact on the Group's financial statements as the amendments were consistent with policies already adopted by the Group or they are not relevant to the Group's and the Company's operations. The other developments resulted in changes in accounting policy and the impact of the remainder of these developments is as follows:

— As a result of the adoption of HKAS 1 (revised 2007), details of changes in equity during the period arising from transactions with equity shareholders in their capacity as such have been presented separately from all other income and expenses in a revised consolidated statement of changes in equity. All other items of income and expense are presented in the consolidated income statement, if they are recognised as part of profit or loss for the period, or otherwise in a new primary statement, the consolidated statement of comprehensive income. Corresponding amounts have been restated to conform to the new presentation. This change in presentation has no effect on reported profit or loss, total income and expense or net assets for any period presented.

— The impact of the majority of the revisions to HKFRS 3, HKAS 27 and HK(IFRIC) 17 have not yet had a material effect on the Group's financial statements as these changes will first be effective as and when the Group enters into a relevant transaction (for example, a business combination, a disposal of a subsidiary or a non-cash distribution) and there is no requirement to restate the amounts recorded in respect of previous such transactions.

— The impact of the amendments to HKFRS 3 (in respect of recognition of acquiree's deferred tax assets) and HKAS 27 (in respect of allocation of losses to non-controlling interests (previously known as minority interests) in excess of their equity interest) have had no material impact as there is no requirement to restate amounts recorded in previous periods and no such deferred tax assets or losses arose in the current period.

3 CHANGES IN ACCOUNTING POLICIES *(continued)*

Further details of these changes in accounting policy are as follows:

— As a result of the adoption of HKFRS 3 (revised 2008), any business combination acquired on or after 1 July 2009 will be recognised in accordance with the new requirements and detailed guidance contained in HKFRS 3 (revised 2008). These include the following changes in accounting policies:

  — Transaction costs that the Group incurs in connection with a business combination, such as finder's fees, legal fees, due diligence fees, and other professional and consulting fees, will be expensed as incurred, whereas previously they were accounted for as part of the cost of the business combination and therefore impacted the amount of goodwill recognised.

  — If the Group holds interests in the acquiree immediately prior to obtaining control, these interests will be treated as if disposed of and re-acquired at fair value on the date of obtaining control. Previously, the step-up approach would have been applied, whereby goodwill was computed as if accumulated at each stage of the acquisition.

  — Contingent consideration will be measured at fair value at the acquisition date. Any subsequent changes in the measurement of that contingent consideration will be recognised in profit or loss, unless they arise from obtaining additional information about facts and circumstances that existed at the acquisition date within 12 months from the date of acquisition (in which case they will be recognised as an adjustment to the cost of the business combination). Previously, contingent consideration was recognised at the acquisition date only if payment of the contingent consideration was probable and it could be measured reliably. All subsequent changes in the measurement of contingent consideration and from its settlement were previously recognised as an adjustment to the cost of the business combination and therefore impacted the amount of goodwill recognised.

  — If the acquiree has accumulated tax losses or other temporary deductible differences and these fail to meet the recognition criteria for deferred tax assets at the date of acquisition, then any subsequent recognition of these assets will be recognised in profit or loss, rather than as an adjustment to goodwill as was previously the policy.

  — In addition to the Group's existing policy of measuring the non-controlling interests (previously known as the "minority interests") in the acquiree at the non-controlling interest's proportionate share of the acquiree's net identifiable assets, in future the Group may elect, on a transaction by transaction basis, to measure then non-controlling interests at fair value.

  In accordance with the transitional provisions in HKFRS 3 (revised 2008), these new accounting policies will be applied prospectively to any business combinations in the current or future periods. The new policy in respect of recognition in the movement of deferred tax assets will also be applied prospectively to accumulated tax losses and other temporary deductible differences acquired in previous business combinations. No adjustments have been made to the carrying values of assets and liabilities that arose from business combinations whose acquisition dates preceded the application of this revised standard.

(Expressed in thousands of Renminbi unless otherwise indicated)

3 CHANGES IN ACCOUNTING POLICIES *(continued)*

— HK(IFRIC) 17 requires distributions of non-cash assets to owners to be measured at the fair value of the assets distributed. This will result in a gain or loss being recognised in profit or loss to the extent that the fair value of the assets is different from their carrying value. Previously the Group measured such distributions at the carrying value of the assets distributed. In accordance with the transitional provisions in HK(IFRIC) 17, this new accounting policy will be applied prospectively to distributions in current or future periods and therefore previous periods have not been restated.

— As a result of the amendments to HKAS 27, as from 1 July 2009 any losses incurred by a non-wholly owned subsidiary will be allocated between the controlling and non-controlling interests in proportion to their interests in that entity, even if this results in a deficit balance within consolidated equity being attributed to the non-controlling interests. Previously, if the allocation of losses to the non-controlling interests would have resulted in a deficit balance, the losses were only allocated to the non-controlling interests if the non-controlling interests were under a binding obligation to make good the losses. In accordance with the transitional provisions in HKAS 27, this new accounting policy is being applied prospectively and therefore previous periods have not been restated.

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 are analysed as follows:

	2010 RMB'000	2009 RMB'000
Footwear	**1,944,663**	1,616,979
Apparel	**2,331,828**	1,754,936
Accessories and others	**54,313**	74,673
	4,330,804	3,446,588

The Group's customer base is diversified and includes only two customers (2009: three) with whom transactions have exceeded 10% of the Group's revenues. During the year ended 30 June 2010, revenues from sales of footwear, apparel and accessories and others to these customers, including sales to entities which are known to the Group to be under common control with these customers, amounted to approximately RMB1,472 million (2009: RMB1,604 million). Details of concentrations of credit risk arising from these customers are set out in 25(a).

(Expressed in thousands of Renminbi unless otherwise indicated)

5 OTHER REVENUE AND NET GAIN/(LOSS)

	2010 RMB'000	2009 RMB'000
Other revenue		
Bank interest income	**14,360**	1,691
Government grants	**17,223**	6,370
Others	**895**	—
	32,478	8,061
Other net gain/(loss)		
Net loss on disposal of fixed assets	**(239)**	(56)
Net foreign exchange gain	**1,797**	—
	1,558	(56)

Government grants of RMB17,223,000 (2009: RMB6,370,000) were received from several local government authorities for the Group's contribution to local economies, of which the entitlements were unconditional and under the discretion of the relevant authorities.

(Expressed in thousands of Renminbi unless otherwise indicated)

6 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

		2010 RMB'000	2009 RMB'000
(a)	Finance costs:		
	Interest on bank borrowings wholly repayable within five years	**3,326**	15,800
(b)	Staff costs:		
	Contributions to defined contribution retirement plans	**4,454**	3,142
	Equity-settled share-based payment expenses (note 22)	**8,453**	490
	Salaries, wages and other benefits	**143,288**	102,125
		156,195	105,757
(c)	Other items:		
	Auditors' remuneration	**3,020**	725
	Amortisation of land lease premium	**1,777**	1,420
	Depreciation **	**22,796**	9,282
	Impairment losses on trade and other receivables	**—**	25,241
	Operating lease charges in respect of properties	**5,358**	3,250
	Research and development costs *	**37,824**	14,818
	Cost of inventories **	**2,624,479**	2,252,785

* Research and development costs include RMB10,896,000 (2009: RMB6,016,000) 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 include RMB111,088,000 (2009: RMB85,926,000) 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) Income tax in the consolidated income statement represents:

	2010 RMB'000	2009 RMB'000
Current tax — PRC income tax		
Provision for the year	**162,781**	86,369
Over provision in respect of prior years	**(4,068)**	—
	158,713	86,369
Deferred tax		
Origination and reversal of temporary differences	**(25,036)**	5,920
	133,677	92,289

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

(ii) No provision has been made for Hong Kong Profits Tax as the Group did 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 corporate income tax is calculated based on a statutory rate of 25% of the assessable profits of the companies comprising the Group. During the year, a PRC subsidiary is 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:

	2010 RMB'000	2009 RMB'000
Profit before taxation	**1,048,526**	724,400
Notional tax on profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned	**263,644**	181,100
Tax effect of non-deductible expenses	**19,385**	4,624
Tax effect of non-taxable income	**(1,843)**	—
Tax effect of profits entitled to tax exemption in the PRC	**(143,441)**	(93,435)
Over provision in respect of prior years	**(4,068)**	—
Actual tax expense	**133,677**	92,289

(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:

	2010				
	Directors' fees RMB'000	Salaries, allowances and other benefits in kind RMB'000	Retirement scheme contributions RMB'000	Discretionary bonus RMB'000	Total RMB'000
Executive directors					
Ding Wuhao	—	1,779	4	—	1,783
Ding Huihuang	—	1,416	3	—	1,419
Ding Huirong	—	1,416	3	—	1,419
Wang Jiabi	—	781	3	—	784
Independent non-executive directors					
Mak Kin Kwong	492	—	—	—	492
Sun Xianhong	320	—	4	—	324
Liu Jianxing	210	—	2	—	212
	1,022	5,392	19	—	6,433

	2009				
	Directors' fees RMB'000	Salaries, allowances and other benefits in kind RMB'000	Retirement scheme contributions 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
Independent non-executive directors					
Mak Kin Kwong	—	—	—	—	—
Sun Xianhong	—	—	—	—	—
Liu Jianxing	—	—	—	—	—
	—	4,866	12	—	4,878

(Expressed in thousands of Renminbi unless otherwise indicated)

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with highest emoluments, three (2009: three) are directors whose emoluments are disclosed in note 8. The aggregate of the emoluments in respect of the remaining two (2009: two) individuals are as follows:

	2010 RMB'000	2009 RMB'000
Salaries and other emoluments	**3,221**	4,241
Equity-settled share-based transactions	**1,843**	41
Retirement scheme contributions	**6**	11
	5,070	4,293

The emoluments of the two (2009: two) individuals with the highest emoluments are within the following bands:

	2010 Number of individuals	2009 Number of individuals
RMB1,000,001 to RMB2,000,000	**1**	1
RMB2,000,001 to RMB3,000,000	**—**	1
RMB3,000,001 to RMB4,000,000	**1**	—

10 PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a loss of RMB14,917,000 (2009: 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 (loss)/profit for the year:

	2010 RMB'000	2009 RMB'000
Amount of consolidated (loss)/profit attributable to equity shareholders dealt with in the Company's financial statements	**(14,917)**	57,186
Final dividends from subsidiary attributable to the profits of the previous financial year, approved and paid during the year	**—**	155,754
Company's (loss)/profit for the year (note 24(a))	**(14,917)**	212,940

Details of dividends paid and payable to equity shareholders of the Company are set out in note 24(b).

(Expressed in thousands of Renminbi unless otherwise indicated)

11 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 RMB916,814,000 (2009: RMB632,111,000) and the weighted average number of shares in issue during the year of 2,061 million (2009: 1,501 million). The weighted average number of shares in issue during the year ended 30 June 2009 was 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

	2010 **'000**	2009 '000
Issued ordinary shares at the beginning of the year	**2,000,000**	1,500,000
Effect of shares issued upon placing and public offering (note 24(c)(ii))	**61,469**	1,370
Weighted average number of ordinary shares at the end of the year	**2,061,469**	1,501,370

(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 RMB916,814,000 (2009: RMB632,111,000) and the weighted average number of ordinary shares of 2,068 million (2009: 1,502 million) adjusted for the potential dilutive effect caused by the share options granted under Pre-IPO share option scheme (note 22(a)).

Weighted average number of ordinary shares (diluted)

	2010 **'000**	2009 '000
Weighted average number of ordinary shares at 30 June	**2,061,469**	1,501,370
Effect of deemed issue of shares under the Company's share option scheme for nil consideration (note 22)	**6,840**	302
Weighted average number of ordinary shares (diluted) at 30 June	**2,068,309**	1,501,672

(Expressed in thousands of Renminbi unless otherwise indicated)

12 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 2008	43,391	40,848	1,914	3,972	10,636	100,761	23,938	124,699
Additions	770	4,821	7,106	1,621	153,044	167,362	64,540	231,902
Disposals	—	(554)	—	—	—	(554)	—	(554)
Transfer from construction in progress	60,875	—	—	—	(60,875)	—	—	—
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
Charge 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

(Expressed in thousands of Renminbi unless otherwise indicated)

12 FIXED ASSETS *(continued)*

The Group *(continued)*

	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 2009	105,036	45,115	9,020	5,593	102,805	267,569	88,478	356,047
Additions	—	54,449	15,929	2,582	269,687	342,647	—	342,647
Disposals	—	(267)	(65)	(420)	—	(752)	—	(752)
Transfer from construction in progress	220,891	—	41,213	—	(262,104)	—	—	—
At 30 June 2010	325,927	99,297	66,097	7,755	110,388	609,464	88,478	697,942
Accumulated depreciation and amortisation:								
At 1 July 2009	2,373	14,975	1,929	1,665	—	20,942	1,933	22,875
Charge for the year	7,108	4,614	9,807	1,267	—	22,796	1,777	24,573
Written back on disposals	—	(180)	(10)	(323)	—	(513)	—	(513)
At 30 June 2010	9,481	19,409	11,726	2,609	—	43,225	3,710	46,935
Net book value:								
At 30 June 2010	316,446	79,888	54,371	5,146	110,388	566,239	84,768	651,007

As at 30 June 2010, fixed assets with aggregate net book value of RMB32,744,000 (2009: RMB80,815,000) are pledged as security for certain banking facilities of the Group totalling RMB80,000,000 (2009: RMB40,000,000).

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

At 30 June 2010, the Group was applying for certificates of ownership for buildings with net book value of RMB36,021,000 (2009: RMB13,650,000) from the relevant PRC government authorities.

(Expressed in thousands of Renminbi unless otherwise indicated)

13 INVESTMENT IN SUBSIDIARY

	The Company 2010 RMB'000	2009 RMB'000
Unlisted share, at cost	**1**	1

Details of the Company's subsidiaries are set out as below. 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	Proportion of ownership interest effective interest	held by the Company	held by a subsidiary	Principal activity
Sanliuyidu Holdings Company Limited	BVI	US$100	100%	100%	—	Investment holding
361 Enterprise Company Limited	Hong Kong	HK$1	100%	—	100%	Investment holding
361 Investment Company Limited	Hong Kong	HK$1	100%	—	100%	Investment holding
Sanliuyidu (Fujian) Sports Goods Co., Ltd (Note (i) and (iii)) 三六一度(福建)體育用品有限公司	PRC	HK$280,000,000	100%	—	100%	Manufacture and trading of sporting goods
Sanliuyidu (China) Co., Ltd (Notes (i) and (iii)) 三六一度(中國)有限公司	PRC	HK$489,999,260	100%	—	100%	Manufacture and trading of sporting goods
Sanliuyidu Xiamen Industry & Trade Co., Limited (Notes (ii) and (iii)) 三六一度(廈門)工貿有限公司	PRC	RMB100,000,000	100%	—	100%	Trading of sporting goods
Sanliuyidu (Fujian) Shoes and Plastics Technology Co., Ltd (Notes (i) and (iii)) 三六一度 (福建)鞋塑科技有限公司	PRC	HK$86,000,000	51%	—	51%	Manufacture and trading of shoes soles

(Expressed in thousands of Renminbi unless otherwise indicated)

13 INVESTMENT IN SUBSIDIARY *(continued)*

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.

14 INVENTORIES

(a) Inventories in the consolidated balance sheet comprise:

	The Group	
	2010	2009
	RMB'000	RMB'000
Raw materials	**24,015**	12,933
Work in progress	**73,904**	50,652
Finished goods	**34,917**	20,052
	132,836	83,637

(b) The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	The Group	
	2010	2009
	RMB'000	RMB'000
Carrying amount of inventories sold	**2,624,479**	2,252,785

(Expressed in thousands of Renminbi unless otherwise indicated)

15 TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade debtors	**935,218**	1,453,033	**—**	—
Less: allowance for doubtful debts (note 15(b))	**(39,520)**	(39,520)	**—**	—
	895,698	1,413,513	**—**	—
Deposits, prepayments and other receivables	**273,948**	178,282	**3,733**	—
	1,169,646	1,591,795	**—**	—
Less: Non-current portion of deposits and prepayments	**(54,910)**	—	**—**	—
	1,114,736	1,591,795	**3,733**	—

All of the current trade and other receivables are expected to be recovered within one year, except that the Group's deposits, prepayments and other receivables totalling RMB10,498,000 (2009: RMB21,963,000) are expected to be recovered or recognised as expenses after more than one year.

a) Ageing analysis

Included in trade and other receivables are trade debtors (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	
	2010	2009
	RMB'000	RMB'000
Within 90 days	**801,290**	1,079,042
Over 91 days but within 180 days	**94,408**	312,456
181 to 360 days	**—**	22,015
	895,698	1,413,513

Trade debtors are due within 30-180 days from the date of billing. Further details on the Group's credit policy are set out in note 25(a).

(Expressed in thousands of Renminbi unless otherwise indicated)

15 TRADE AND OTHER RECEIVABLES *(continued)*

(b) Impairment of trade debtors

Impairment losses in respect of trade debtors 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 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	
	2010	2009
	RMB'000	RMB'000
At the beginning of the year	**39,520**	14,279
Impairment loss recognised	**–**	25,241
At the end of the year	**39,520**	39,520

At 30 June 2010, the Group's trade debtors of RMB39,520,000 (2009: RMB39,520,000) 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.

(c) Trade debtors that are not impaired

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

	The Group	
	2010	2009
	RMB'000	RMB'000
Neither past due nor impaired	**574,339**	1,269,012
Less than 1 month past due	**82,988**	45,728
1 to 3 months past due	**238,371**	98,773
Amount past due	**321,359**	144,501
	895,698	1,413,513

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

(Expressed in thousands of Renminbi unless otherwise indicated)

15 TRADE AND OTHER RECEIVABLES *(continued)*

(c) Trade debtors that are not impaired *(continued)*

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.

16 PLEDGED BANK DEPOSITS

Bank deposits are pledged to banks as security for certain banking facilities (see note 18).

17 CASH AND CASH EQUIVALENTS

At 30 June 2010, the balances that were placed with banks in the PRC and included in the cash and cash equivalents amounted to RMB1,545,616,000 (2009: RMB454,943,000). Remittance of funds out of the PRC is subject to the exchange restriction imposed by the PRC government.

Some of the Group's customers issued commercial acceptance bills to settle the Group's trade debtors. During the year ended 30 June 2010, certain of these customers entered into financing arrangements with banks, whereby the Group discounted the commercial acceptance bills to the banks without recourse on the Group. The financing arrangements were guaranteed by related parties of the customers and all the related finance charges were borne by the customers. As at 30 June 2010, such discounted commercial acceptance bills, which have not yet matured and without recourse on the Group, amounted to RMB1,629,100,000 (2009: Nil).

18 TRADE AND OTHER PAYABLES

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade creditors	**226,381**	662,280	**—**	—
Bills payable	**382,000**	320,000	**—**	—
Receipts in advance	**28,597**	26,791	**—**	—
Other payables and accruals	**382,852**	218,226	**8,916**	34,635
	1,019,830	1,227,297	**8,916**	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 2010 and 2009 were secured by pledged bank deposits as disclosed in note 16.

(Expressed in thousands of Renminbi unless otherwise indicated)

18 TRADE AND OTHER PAYABLES *(continued)*

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	
	2010	2009
	RMB'000	RMB'000
Due within 1 month or on demand	**101,774**	122,009
Due after 1 month but within 3 months	**200,942**	173,357
Due after 3 months but within 6 months	**305,665**	686,914
	608,381	982,280

19 BANK LOANS

As at 30 June 2010, the bank loans were repayable as follows:

	The Group	
	2010	2009
	RMB'000	RMB'000
Within 1 year or on demand	**–**	267,000

As at 30 June 2010, the bank loans were secured as follows:

	The Group	
	2010	2009
	RMB'000	RMB'000
Bank loans		
— secured	**–**	40,000
— unsecured	**–**	227,000
	–	267,000

(Expressed in thousands of Renminbi unless otherwise indicated)

19 BANK LOANS *(continued)*

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

	The Group	
	2010	2009
	RMB'000	RMB'000
Facility amount	**1,780,000**	935,000
Utilisation at the balance sheet date	**382,000**	587,000

At 30 June 2010, certain banking facilities of the Group were secured by mortgages over the interests in leasehold land held under operating leases and other fixed assets with carrying values of RMB32,744,000 (2009: RMB38,505,000) and RMBNil (2009: RMB42,310,000) respectively.

20 AMOUNTS DUE FROM/TO SUBSIDIARIES

The Company

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

21 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' relevant 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 and the MPF scheme beyond the annual contributions described above.

(Expressed in thousands of Renminbi unless otherwise indicated)

22 EQUITY-SETTLED SHARE-BASED TRANSACTIONS

(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 Group 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 one to three years commencing from the date of listing of the Company on the Hong Kong Stock Exchange 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.

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

	Number of instruments '000	Vesting 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
Total share options granted	20,380		

(Expressed in thousands of Renminbi unless otherwise indicated)

22 EQUITY-SETTLED SHARE-BASED TRANSACTIONS *(continued)*

(a) Pre-IPO share option scheme *(continued)*

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

	2010 Exercise price	**2010** Number of options '000	2009 Exercise price	2009 Number of options '000
Outstanding at the beginning of the year	**HK$2.89**	**20,380**	—	—
Granted during the year	**—**	**—**	HK$2.89	20,380
Outstanding at the end of the year	**HK$2.89**	**20,380**	HK$2.89	20,380
Exercisable at the end of the year	**HK$2.89**	**6,114**	—	—

No share options were exercised during the year (2009: Nil).

The share options outstanding at 30 June 2010 had an exercise price of HK$2.89 (2009: HK$2.89) and a weighted average remaining contractual life of 4 years (2009: 5 years).

(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	**2010**	2009
Fair value at measurement date	**HK$0.86**	HK$0.86
Share price	**HK$2.14**	HK$2.14
Exercise price	**HK$2.89**	HK$2.89
Expected volatility (expressed as weighted average volatility used in the modelling under binominal lattice model)	**50.97%**	50.97%
Expected option life (expressed as weighted average life used in the modelling under binominal lattice model)	**5 years**	5 years
Expected dividends	**2.80%**	2.80%
Risk-free interest rate	**2.03%**	2.03%

(Expressed in thousands of Renminbi unless otherwise indicated)

22 EQUITY-SETTLED SHARE-BASED TRANSACTIONS *(continued)*

(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 (2009: Nil).

23 INCOME TAX IN THE BALANCE SHEET

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

	The Group	
	2010	2009
	RMB'000	RMB'000
Provision for PRC income tax for the year	**162,781**	86,369
Provisional income tax paid	**(64,029)**	(21,518)
	98,752	64,851
Balance of income tax provision relating to prior year	**10,793**	—
	109,545	64,851

(Expressed in thousands of Renminbi unless otherwise indicated)

23 INCOME TAX IN THE BALANCE SHEET *(continued)*

(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	**Expenses to be deductible on paid basis** RMB'000	**Total** RMB'000
Deferred tax arising from:				
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)
At 1 July 2009	9,880	(19,384)	—	(9,504)
Credited to profit or loss	—	—	25,036	25,036
At 30 June 2010	9,880	(19,384)	25,036	15,532

Reconciliation to the consolidated balance sheet

	The Group	
	2010 **RMB'000**	2009 RMB'000
Net deferred tax assets recognised on the consolidated balance sheet	**18,657**	—
Net deferred tax liabilities recognised on the consolidated balance sheet	**(3,125)**	(9,504)
	15,532	(9,504)

(c) Deferred tax liabilities not recognised

At 30 June 2010, the Group has not recognised deferred tax liabilities of RMB41,884,000 (2009: RMB2,076,000) in respect of temporary differences relating to the undistributed profits of subsidiaries amounting to RMB837,681,000 (2009: RMB41,520,000) 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)

24 CAPITAL, RESERVES AND DIVIDENDS

(a) Movement in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

The Company

	Note	Capital RMB'000	Share premium RMB'000	Share option reserve RMB'000	Exchange reserve RMB'000	Retained profits/ (accumulated losses) RMB'000	Total RMB'000
Balance at 1 August 2008		–	–	–	–	–	–
Changes in equity for the period ended 30 June 2009:							
Shares issued upon incorporation	24(c)	1	–	–	–	–	1
Capitalisation issue	24(c)(i)	132,254	(132,254)	–	–	–	–
Shares issued under placing and public offering, net of issuing expenses	24(c)(ii)	44,085	1,435,087	–	–	–	1,479,172
Equity-settled share-based transactions		–	–	490	–	–	490
Total comprehensive income for the period		–	–	–	59	212,940	212,999
Dividends declared and paid during the year	24(b)	–	–	–	–	(76,742)	(76,742)
Balance at 30 June 2009 and 1 July 2009		176,340	1,302,833	490	59	136,198	1,615,920
Changes in equity for the year ended 30 June 2010:							
Shares issued under placing, net of issuing expenses	24(c)(ii)	5,769	195,109	–	–	–	200,878
Equity-settled share-based transactions		–	–	8,453	–	–	8,453
Total comprehensive income for the year		–	–	–	(22,897)	(14,917)	(37,814)
Dividends declared and paid during the year	24(b)	–	(88,813)	–	–	(134,252)	(223,065)
Balance at 30 June 2010		182,109	1,409,129	8,943	(22,838)	(12,971)	1,564,372

(Expressed in thousands of Renminbi unless otherwise indicated)

24 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(b) Dividends

(i) Dividends payable to equity shareholders of the Company attributable to the year

	2010 RMB'000	2009 RMB'000
Interim dividend declared and paid during the year	**88,813**	76,742
Final dividend proposed after the balance sheet date of RMB9 cents per ordinary share (2009: RMB6.5 cents per ordinary share)	**185,887**	134,252
	274,700	210,994

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

(ii) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year

	2010 RMB'000	2009 RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year, of 6.5 cents per ordinary share (2009: Nil)	**134,252**	—

(c) Share capital

Authorised and issued share capital

	2010		2009	
	Number of shares '000	**HK$'000**	Number of shares '000	HK$'000
Authorised:				
Ordinary shares of HK$0.1 each	**10,000,000**	**1,000,000**	10,000,000	1,000,000

(Expressed in thousands of Renminbi unless otherwise indicated)

24 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(c) Share capital *(continued)*

Authorised and issued share capital (continued)

	Note	Number of shares '000	HK$'000	RMB'000
Ordinary shares, issued and fully paid:				
At 1 August 2008 (date of incorporation)		10	1	1
Capitalisation issue	(i)	1,499,990	149,999	132,254
Shares issued under placing and public offering	(ii)	500,000	50,000	44,085
At 30 June 2009		2,000,000	200,000	176,340
At 1 July 2009		2,000,000	200,000	176,340
Shares issued under placing	(ii)	65,412	6,541	5,769
At 30 June 2010		2,065,412	206,541	182,109

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) Shares issued 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.

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 amounted to RMB200,878,000 (after offsetting share issuance expenses of RMB7,371,000), out of which RMB5,769,000 and RMB195,109,000 were recorded in share capital and share premium respectively.

(Expressed in thousands of Renminbi unless otherwise indicated)

24 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(d) Terms of unexpired and unexercised share options at balance sheet date

Exercise period	Exercise price	2010 Number '000	2009 Number '000
30 June 2010 to 30 June 2014	HK$ 2.89	**6,114**	6,114
30 June 2011 to 30 June 2014	HK$ 2.89	**6,114**	6,114
30 June 2012 to 30 June 2014	HK$ 2.89	**8,152**	8,152
		20,380	20,380

Each option entitles the holder to subscribe for one ordinary share in the Company. Further details of these options are set out in note 22 to the financial statements.

(e) Nature and purpose of reserves

(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 course 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 was reflected as a reduction in the amounts due to a shareholder of the Company and a corresponding increase in capital reserve.

(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 was 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.

24 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(e) Nature and purpose of reserves *(continued)*

(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 accepted for share-based payments in note 2(l)(ii).

(vi) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from translation of the financial statements of entities with functional currency other than RMB. The reserve is dealt with in accordance with the accounting policy set out in note 2(p).

(f) Distributability of reserves

At 30 June 2010, the aggregate amount of reserves available for distribution to equity shareholders of the Company was RMB1,373,320,000 (2009: RMB1,439,090,000). After the balance sheet date the directors proposed a final dividend of RMB9 cents (equivalent to HK$10.3 cents) (2009: RMB6.5 cents (equivalent to HK$7.4 cents)) per ordinary share, amounting to RMB185,887,000 (2009: RMB134,252,000). This dividend has not recognised as a liability at the balance sheet date.

(g) 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 capital with reference to its debt position. The Group's strategy is to maintain the equity and debt in a balanced position and ensure there is adequate working capital to service its debt obligation. The Group's gearing ratio, being the Group's total liabilities over its total assets, as at 30 June 2010 was 25% (2009: 38%).

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

25 FINANCIAL RISK MANAGEMENT

Exposure to credit, liquidity, interest rate, commodity price and currency risks arises in the normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are 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. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. 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. At the balance sheet date, the Group has a certain concentration of credit risk as 17% (2009: 27%) of the total trade receivables were due from the Group's largest customer, and 50% (2009: 59%) of the total trade receivables were due from the Group's five largest customers as at 30 June 2010.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet after deducting any impairment allowance. The Group does not provide any guarantees which would expose the Group or the Company to credit risk.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 15.

(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.

(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 its liquidity requirements 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.

(Expressed in thousands of Renminbi unless otherwise indicated)

25 FINANCIAL RISK MANAGEMENT *(continued)*

(b) Liquidity risk *(continued)*

The following table details the remaining contractual maturities at the balance sheet date of the Group's and the Company 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

	2010 Contractual undiscounted cash outflow			2009 Contractual undiscounted cash outflow		
	Within 1 year or on demand RMB'000	**Total RMB'000**	**Balance sheet carrying amount RMB'000**	Within 1 year or on demand RMB'000	Total RMB'000	Balance sheet carrying amount RMB'000
Bank loans	**—**	**—**	**—**	276,644	276,644	267,000
Trade and other payables	**991,233**	**991,233**	**991,233**	1,227,297	1,227,297	1,227,297
	991,233	**991,233**	**991,233**	1,503,941	1,503,941	1,494,297

The Company

	2010 Contractual undiscounted cash outflow			2009 Contractual undiscounted cash outflow		
	Within 1 year or on demand RMB'000	**Total RMB'000**	**Balance sheet carrying amount RMB'000**	Within 1 year or on demand RMB'000	Total RMB'000	Balance sheet carrying amount RMB'000
Other payables	**8,916**	**8,916**	**8,916**	34,635	34,635	34,635
Amounts due to subsidiaries	**12,717**	**12,717**	**12,717**	20,660	20,660	20,660
	21,633	**21,633**	**21,633**	55,295	55,295	55,295

(Expressed in thousands of Renminbi unless otherwise indicated)

25 FINANCIAL RISK MANAGEMENT *(continued)*

(c) Interest rate risk

The Group's interest rate risk arises primarily from bank loans, pledged bank deposit, deposits with banks and cash and cash equivalents. Borrowings issued at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively.

(i) Interest rate profile

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

The Group

	2010 Effective interest rate	**2010** RMB'000	2009 Effective interest rate	2009 RMB'000
Fixed rate (deposits)/borrowings				
Deposits with banks	**0.78% - 1.65%**	**(936,085)**	—	—
Bank loans	**—**	**—**	4.62% - 8.22%	267,000
		(936,085)		267,000
Variable rate deposits				
Pledged bank deposits	**0.36% - 1.98%**	**(101,200)**	0.36% - 1.98%	(86,700)
Cash and cash equivalents	**0.001% - 0.36%**	**(1,554,586)**	0.01% - 0.36%	(1,983,546)
		(1,655,786)		(2,070,246)
Total net deposits		**(2,591,871)**		(1,803,246)

(Expressed in thousands of Renminbi unless otherwise indicated)

25 FINANCIAL RISK MANAGEMENT *(continued)*

(c) Interest rate risk *(continued)*

(i) Interest rate profile (continued)

The Company

	2010 Effective interest rate	**2010** RMB'000	2009 Effective interest rate	2009 RMB'000
Fixed rate deposits				
Deposits with banks	**0.78% - 1.65%**	**(718,685)**	—	—
Variable rate deposits				
Cash and cash equivalents	**0.001%**	**(352)**	0.01%	(1,527,991)
Total net deposits		**(719,037)**		(1,527,991)

(ii) Sensitivity analysis

At 30 June 2010, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have increased/decreased the Group's profit after tax and retained profit by approximately RMB16,558,000 (2009: RMB20,702,000). Other components of consolidated equity would not be affected by the general increase/decrease in interest rates.

The sensitivity analysis above indicates the instantaneous change in the Group's profit after tax (and retained profits) and other components of consolidated equity that would arise assuming that the change in interest rates had occurred at the balance sheet date and had been applied to re-measure those financial instruments held by the Group which expose the Group to fair value interest rate risk at the balance sheet date. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative financial instruments held by the Group at the balance sheet date, the impact on the Group's profit after tax (and retained profits) and other components of consolidated equity is estimated as an annualised impact on interest expense or income of such change in interest rates. The analysis is performed on the same basis in 2009.

(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.

(Expressed in thousands of Renminbi unless otherwise indicated)

25 FINANCIAL RISK MANAGEMENT *(continued)*

(e) Currency risk

The Group is exposed to currency risk primarily through bank deposits 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.

(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 or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in RMB, translated using the spot rate at the year end date.

The Group

	2010 RMB'000	2009 RMB'000
Cash and cash equivalents	**98,319**	1,527,995
Other payables	**—**	(34,635)
Net exposures	**98,319**	1,493,360

The Company

	2010 RMB'000	2009 RMB'000
Cash and cash equivalents	**—**	1,527,991
Amounts due to subsidiaries	**(12,717)**	—
Other payables	**—**	(34,635)
Net exposure	**(12,717)**	1,493,356

(Expressed in thousands of Renminbi unless otherwise indicated)

25 FINANCIAL RISK MANAGEMENT *(continued)*

(e) Currency risk *(continued)*

(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.

	2010		2009	
	Increase/ (decrease) in foreign exchange rates	**Effect on profit after tax and retained profits RMB'000**	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits RMB'000
Hong Kong dollars	**5%**	**3,705**	5%	74,668
	(5%)	**(3,705)**	(5%)	(74,668)

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 2009.

(f) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 30 June 2010 and 2009.

(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)

26 COMMITMENTS

(a) Contractual commitments outstanding at 30 June 2010 not provided for in the financial statements were as follows:

	2010 RMB'000	2009 RMB'000
Advertising and marketing expenses	**628,058**	694,441

(b) Capital commitments outstanding at 30 June 2010 not provided for in the financial statements were as follows:

	2010 RMB'000	2009 RMB'000
Contracted for	**78,857**	31,815

(c) At 30 June 2010, the Group had total future minimum lease payments under non-cancellable operating leases payable as follows:

	2010 RMB'000	2009 RMB'000
Within 1 year	**3,181**	2,190
After 1 year but within 5 years	**1,882**	132
	5,063	2,322

The Group is the lessee in respect of a number of warehouses and offices held under operating leases. The leases typically run for an initial period of one to three years with options to renew the lease when all terms are renegotiated. None of the leases include contingent rentals.

(Expressed in thousands of Renminbi unless otherwise indicated)

27 MATERIAL RELATED PARTY TRANSACTIONS

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

(a) The Group acquired certain interests in leasehold land held for own use under operating leases from Bieke (Fujian) Shoes Company Ltd. (a company wholly owned by Mr Ting Tong Bun, who is the father-in-law of a director and shareholder of the Company, Mr Ding Huihuang). The consideration paid for the interests in leasehold land held for own use under operating leases during the year ended 30 June 2009 amounted to RMB8,239,000.

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

The maximum balances of advances made to/from related parties of the Group during the year are as follows:

	2010 RMB'000	2009 RMB'000
Short term advances to related parties		
— Mr Ting Tong Bun	**–**	49,995
— Bieke (Fujian) Shoes Company Ltd.	**–**	18,819
	–	68,814
Short term advances from a shareholder of the Company		
— Mr Ding Huihuang	**–**	(156,252)

As at 30 June 2009 and 2010, the Group did not have balances with the related parties.

(c) Key management personnel remuneration

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

	2010 RMB'000	2009 RMB'000
Short-term employee benefits	**17,819**	13,632
Equity-settled share-based transactions	**3,491**	125
Post-employment benefits	**83**	55
	21,393	13,812

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

28 ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements and estimates 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.

Notes 22 and 25 contain information about the assumptions and their risk factors relating to fair value of share option granted and financial instruments. Other key sources of estimation uncertainty are as follows:

(a) Useful lives of fixed assets

The Group determines the estimated useful lives and related depreciation/amortisation charges for the fixed assets. This estimate is based on the historical experience of the actual useful lives of the fixed assets of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation/amortisation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(b) Impairment losses on trade and other receivables

The Group recognises impairment losses on doubtful debts based on an assessment of the recoverability of trade debtors and other receivables. Impairments are applied to trade debtors and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of doubtful debts requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact carrying value of receivables and doubtful debts expenses in the period in which such estimate has been changed.

(c) Other impairment losses

If circumstances indicate that the carrying value of investment in subsidiary, property, plant and equipment or interest in leasehold land held for own use under operating leases may not be recoverable, these assets may be considered impaired, and an impairment loss may be recognised in accordance with HKAS 36 "Impairment of Assets". The carrying amounts of these 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 amount 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 net selling prices and the value in use. It is difficult to estimate precisely selling prices because quoted market prices for the Group's assets are not readily available. 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 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 revenue and amount of operating costs.

(d) Net realisable value of inventories

The Group recognises write-down on inventories based on an assessment of the net realisable value of the inventories. Write-down is applied to the inventories where events or changes in circumstances indicate that the net realisable value is less than cost. The determination of net realisable value requires the use of judgement and estimates. Where the expectation is different from the original estimates, such difference will impact carrying value of the inventories and write-down on inventories charged to profit or loss in the period in which such estimate has been changed.

(Expressed in thousands of Renminbi unless otherwise indicated)

28 ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

(e) Income taxes

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislations.

29 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 30 JUNE 2010

Up to the date of issue of these 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 2010 and which have not been adopted in these financial statements.

	Effective for accounting periods beginning on or after
Improvements to HKFRSs 2009	1 January 2010
Amendment to HKFRS 2, *Share-based payment*	1 January 2010
Amendment to HKAS 32, *Financial instruments: Presentation*	1 February 2010
HK(IFRIC) 19, *Extinguishing financial liabilities with equity instruments*	1 July 2010
Improvements to HKFRSs 2010	1 July 2010 or 1 January 2011
Revised HKAS 24, *Related party disclosures*	1 January 2011
Amendments to HK (IFRIC) 14, *Prepayments of a minimum funding requirement*	1 January 2011
HKFRS 9, *Financial instruments*	1 January 2013

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.

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