ANNUAL REPORT 2008

YYSPORTS 胜道

POU SHENG INTERNATIONAL (HOLDINGS) LIMITED
寶 勝 國 際 （ 控 股 ） 有 限 公 司

(Incorporated in Bermuda with limited liability)

(Stock Code：3813)

POU SHENG
INTERNATIONAL (HOLDINGS) LIMITED

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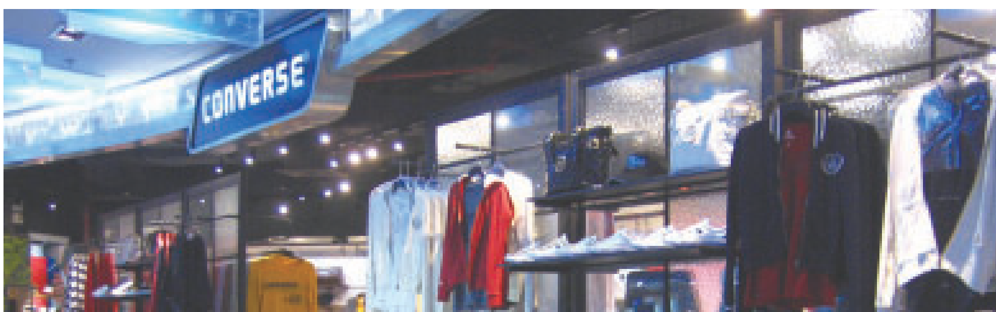


OUR MISSION

OUR MISSION

As the largest sports footwear/sportswear retailer in the PRC, Pou Sheng, cooperating with several leading international brands, will continue to provide all customers with suitable and satisfactory sports and lifestyle-based products.

The Group, led by a team of well-experienced management and riding on its advanced retail management and IT capabilities, will further enhance its existing retail channels in order to maintain its leading edges in scale in the Greater China Region.

Besides, the Group will continuously improve its high-standard customer services and further develop the channel brand of "勝道／YY SPORTS", by which the "勝道／YY SPORTS" will eventually be built as the clients' preferred channel for sports and lifestyle-based products in the Greater China Region.

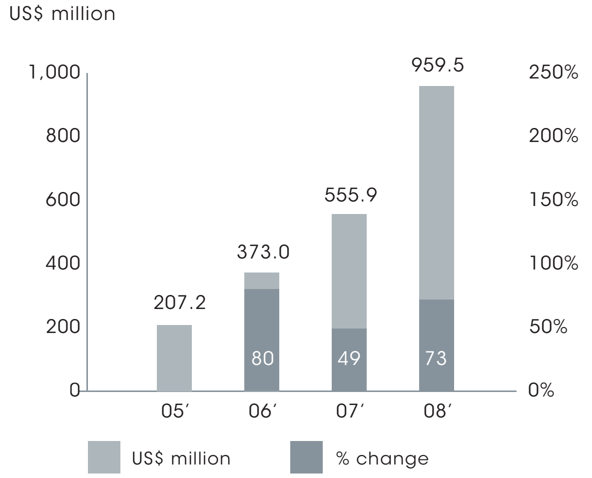
CORPORATE OVERVIEW

THE GROUP'S FINANCIAL HIGHLIGHTS

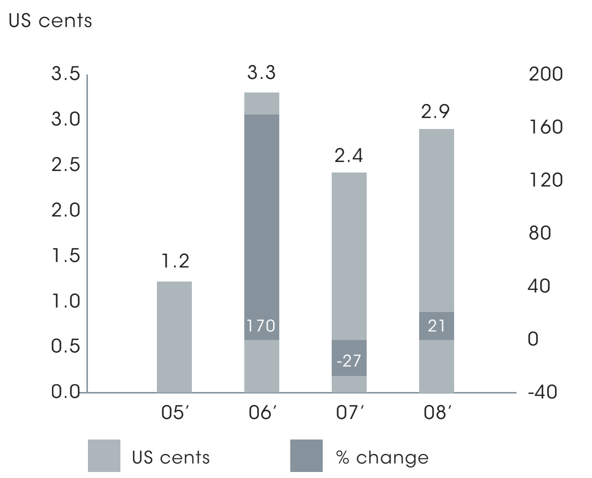
	For the year ended September 30 2008	2007	Percentage increase
Revenue *(US$'000)*	959,548	555,903	72.6%
Profit attributable to equity holders of the Company *(US$'000)*	70,024	31,927	119.3%
Basic earnings per share *(US cents)*	2.9	2.4	20.8%

KEY SHAREHOLDER VALUE INDICES

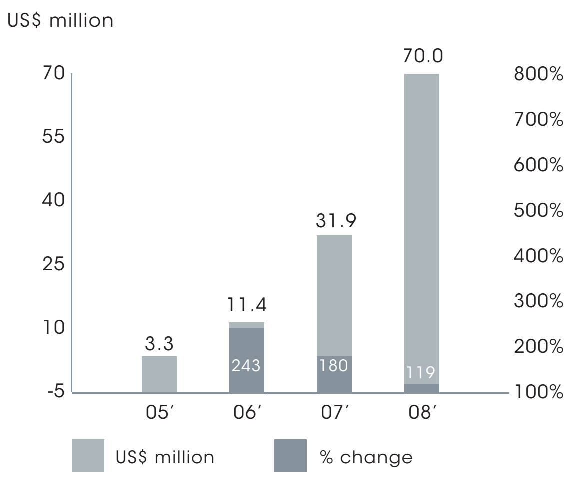
Consolidated Turnover



Earnings Per Share



Net Profit Attributable to Equity Holders of the Company



CORPORATE INFORMATION

DIRECTORS

Non-Executive Directors
Tsai David, Nai Fung *(Chairman)*
Ku Edward, Yu-Sun[3,4] *(Vice Chairman)*
Tsai Patty, Pei Chun[1]

Executive Directors
Huang Tsung Jen *(CEO)*
Lee Chung Wen
Huang Chun Hua
Lu Ning
Chang Karen Yi-Fen

Independent Non-Executive Directors
Chen Huan-Chung[3]
Hu Sheng-Yih[3]
Mak Kin Kwong[1,2]
Cheng Ming Fun Paul[1]

Notes:

1. Member of Audit Committee
2. Chairman of Audit Committee
3. Member of Remuneration Committee
4. Chairman of Remuneration Committee

COMPANY SECRETARY

Ng Lok Ming

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

PRINCIPAL PLACE OF BUSINESS

Suites 3108-11, 31/F., Tower 6,
The Gateway, 9 Canton Road,
Tsim Sha Tsui, Kowloon,
Hong Kong

STOCK CODE

3813 HK

AUDITOR

Deloitte Touche Tohmatsu

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fulcrum Group (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke, HM08
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

COMPLIANCE ADVISOR

Taifook Capital Limited

SOLICITOR

Richards Butler in association with Reed Smith LLP

PRICIPAL BANKERS

The Hongkong and Shanghai Banking
Corporation Limited
Standard Chartered Bank (Hong Kong) Limited
Bank of America, N. A.
Bank of China (Hong Kong) Limited

WEBSITE ADDRESS

www. pousheng.com

CHAIRMAN'S STATEMENT

On behalf of the board of directors of Pou Sheng International (Holdings) Limited ("Pou Sheng", "Pou Sheng International" or the "Company"), I am pleased to present the audited annual results of the Company for the year ended September 30, 2008.

Thanks to the efforts contributed by every party involved, Pou Sheng International was successfully listed on the Hong Kong Stock Exchange on June 6, 2008, which marks another milestone in the Pou Sheng International's history.

CHAIRMAN'S STATEMENT

In the mere six months since the Company was listed, it has encountered numerous major impacts, especially the subprime mortgage and Fannie Mae ("FNM") and Freddie Mae ("FRE") crisis, which resulted in the global financial turmoil, as well as the plunge in consumer confidence worldwide resulted from the concerns over inflation and economic downturn. Nevertheless, the operating results of Pou Sheng International for the year has successfully surmounted the global downturn and achieved a remarkable annual growth. Our shares in the PRC sportswear market has also accomplished another record high. In the year under review, the turnover rose to US$959.5 million, representing an increase of 72.6% over the corresponding period last year; while the net profit increased to US$79.7 million, or 81.6% comparing to the corresponding period last year. Such results evidenced that the various integration measures implemented since the listing of the Company were adopted to the condition changes and market trends, and proved to be effective for business development.

CHAIRMAN'S STATEMENT

Our remarkable performance in the market achieved last year was attributable to the capitalization on the edges resulting from the team integration. Besides, it was also thanks to continuous development of operating leverage, implementation of stringent cost control measures, efforts in enhancement of operating efficiency, leverage on the expertise and experience in sportswear production of our parent company, Yue Yuen Group, rigid integration among all sectors from product development, marketing, sales, production to branding by end-to-end solution and response to the market change through optimization of its inventory by which the profitability of the Group and other brand companies were buoyed. Adhering to the strategy which focuses equally on the edges of business models, channel brands and operating efficiency, Pou Sheng has achieved growths outperforming the market for quarters, reached record high market shares and remained as the leading sportswear channel in the Greater China in spite of intensified competition. However, with the likelihood of economy slowdown ahead, 2009 will be a year of challenges. It is anticipated that the sportswear retail industry will be encountering such issues as inventory backlogs and discounted sales. Amid such conditions, Pou Sheng will continue to enhance its existing retail network and further strengthen its operation in order to maintain its competitiveness and strive for a steady grow.

Looking forward, we are still optimistic towards the PRC sportswear market in the long run, as we believe that the economy in the PRC will keep growing in a steady pace, while the industry will also be driven by the people's enthusiasm in sports inspired by the 2008 Beijing Olympic. Meanwhile, as we are in the midst of the global financial crisis, we shall take heed of, and get well prepared for, the impacts on the retail industry habitation posed by the general economic environment, as well as the changes in the consumption behaviors. We will effectively comprehend our competitors' movements, understand the consumers better,

CHAIRMAN'S STATEMENT

precisely identify our market position and fulfill our consumers' needs, all of which are fundamental prerequisite for the adjustment of our operating structure and operating strategies. We will also proactively facilitate integration of internal management system, implement the operation management in a more cost-effective way, as well as prudentially assess and control the chain stores development pace and scale in order to enhance the operation efficiency and improve the existing outlets' results and construct a highly efficient logistic system.

In the future, Pou Sheng's management will strive to building a solid foundation for the Company's long-term development by focusing on development of the sportswear channeling business and innovation of business models. While the Company's performance in business development was exceptional last year, our team building progress was also satisfactory. We are looking forward to a sustainable development of Pou Sheng culture, which will provide maximum momentum for our success. Lastly, I would like to hereby extend my sincere appreciation to our clients, shareholders, the brands and all staff for their continuous support.

FINANCIAL HIGHLIGHTS AND BUSINESS REVIEW

Highlights

- Successfully listed on the Main Board of the Stock Exchange on June 6, 2008

When compared to the financial year ended September 30, 2007:

- Revenue increased by 72.6% to US$959.5 million
- Gross profit increased by 71.3% to US$344.4 million
- Profits for the year (excluding fair value changes on derivative financial instruments) increased by 61.1% to US$70.8 million
- Basic earnings per share increased by 20.8% to 2.9 US cents

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW

The financial year ended September 30, 2008 was a period full of opportunities and challenges. While the PRC has experienced the worst snowstorm in the past fifty years at the beginning of 2008, a massive earthquake in Sichuan Province in May 2008, an extensive flooding in mid to late June 2008 after heavy rainstorms over vast areas across Guangdong and Guangxi Provinces, as well as the global financial crisis during this period, all of which impacted on the general consumer spending sentiment negatively in the PRC, we were able to deliver strong results as highlighted above. The PRC sportswear market continued to grow rapidly, driven by the nation's economic growth, rising disposable income per capita and increasing interest in sports activities. In particular, we believe the 2008 Beijing Olympics that was successfully held has raised individuals' awareness in sports activities across the nation which in turn had further enhanced the growth of the PRC sportswear market.

As a leading sportswear retailer in the PRC, we believe we are well positioned to capture this market opportunity to increase our market share by expanding our retail distribution network and to enhance our profitability by further optimizing the management of our vast store network. As at September 30, 2008, we, together with our regional joint ventures, operated a total of 4,728 directly operated retail outlets across almost every province in the PRC. As at December 31, 2008, we have successfully integrated our POS (Point-of-sale) system with over 90% of the retail outlets directly operated by our regional joint ventures and our financial management systems with 17 out of 18 of our regional joint ventures and non-wholly owned subsidiaries.

For our retail business, we distribute a wide range of sportswear products including footwear, apparel and accessories for some of the leading international and domestic sportswear brands to the end customers through our directly operated retail outlets, and also to retail sub-distributors on a wholesale basis, which in turn sell the products through their retail outlets under our supervision. As at September 30, 2008, the number of retail outlets operated by our retail sub-distributors and our regional joint ventures' retail sub-distributors amounted to 877 and 2,631 respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

As part of our expansion strategy to extend the reach of our retail network, we have established regional joint ventures in different regions in the PRC with partners who we believe are leading retail players in their respective regional markets. Our regional joint ventures operate their retail business under a model similar to ours.

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

In addition, we manufacture for five brands at our Taicang factory, namely Li Ning, ANTA, Umbro, Kappa and 361°, solely for sale to our OEM/ODM customers. The production capacity of our Taicang factory increased from 15 production lines as at September 30, 2007 to 18 production lines as at September 30, 2008.

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

As we have undergone the process to integrate our regional joint ventures, we have been closely monitoring their operational and financial performance. For the financial year ended September 30, 2008, our regional joint ventures taken in aggregate have performed up to our expectations. We have continued to maximize our returns from our regional joint ventures by implementing our powerful IT system and introducing our best practices to them. We continue to hold call options to acquire the remaining interests in 15 regional joint ventures.

FINANCIAL REVIEW

Despite the numerous challenges experienced by the PRC in general in 2008, we delivered strong growth and have further strengthened our leading position in the PRC sportswear retail market. During the financial year ended September 30, 2008, we achieved revenue of US$959.5 million, and profit for the year (excluding fair value changes on derivative financial instruments) of US$70.8 million, representing growth rates of 72.6% and 61.1% from the financial year ended September 30, 2007 respectively. Our regional joint ventures continued to demonstrate strong performance and contributed total net profit before minority interests of US$31.3 million, accounting for approximately 44.2% of our profit for the year (excluding fair value changes on derivative financial instruments) for the financial year ended September 30, 2008. Despite the challenging operating environment, the operating results for the financial year ended September 30, 2008 demonstrated our competitive advantages and the concerted efforts of all our staff.

REVENUE

Our combined revenue increased by 72.6% to US$959.5 million for the financial year ended September 30, 2008 from US$555.9 million for the financial year ended September 30, 2007. This increase was primarily due to the continued growth of our retail, brand licensee and manufacturing businesses.

Retail Business. Revenue from our retail business increased by 87.8% to US$667.3 million for the financial year ended September 30, 2008, from US$355.2 million for the financial year ended September 30, 2007. This increase was primarily due to more sales as a result of the increase in the number of directly operated retail outlets. The number of our directly operated retail outlets increased to 2,118 as at September 30, 2008, from 1,199 as at September 30, 2007. Among the revenue generated from our retail business, revenue generated by sales to retail sub-distributors increased by 54.9% to US$138.0 million for the financial year ended September 30, 2008, from US$89.1 million for the financial year ended September 30, 2007, primarily due to the network expansion undertaken by our sub-distributors.

Brand Licensee Business. Revenue from our brand licensee business increased by 36.4% to US$181.7 million for the financial year ended September 30, 2008, from US$133.2 million for the financial year ended September 30, 2007. This increase was primarily due to an increase in the number of retail outlets operated by our retail distributors and their sub-distributors, and the strong performance of our Converse brand licensee business.

Manufacturing Business. Revenue from our manufacturing business increased by 60.8% to US$107.8 million for the financial year ended September 30, 2008, from US$67.1 million for the financial year ended September 30, 2007. This increase was primarily due to the increase in the production capacity of our Taicang factory as we increased the number of production lines from 15 to 18, and our Taicang factory has operated close to full capacity during the financial year ended September 30, 2008. During the same period, the average sales prices for our manufactured products remained relatively stable.

Property Leasing and Management Business. Revenue from our property leasing and management business increased by US$2.3 million to US$2.7 million for the financial year ended September 30, 2008, from US$0.4 million for the financial year ended September 30, 2007. We established this business in December 2006 to complement the variety of our retail channels.

COST OF SALES

Our cost of sales increased by 73.3% to US$615.2 million for the financial year ended September 30, 2008, from US$354.9 million for the financial year ended September 30, 2007, in line with the increase in sales in our retail, brand licensee and manufacturing businesses.

GROSS PROFIT AND GROSS PROFIT MARGIN

As a result of the factors listed above, our gross profit increased by 71.3% to US$344.4 million for the financial year ended September 30, 2008, from US$201.0 million for the financial year ended September 30, 2007. Our overall gross profit margin decreased to 35.9% for the financial year ended September 30, 2008 as compared to 36.2% for the financial year ended September 30, 2007. The decrease in gross profit margin was primarily due to the lower gross profit margin in our brand licensee business as a result of higher discounts offered to increase product sell-through, which was partially offset by the margin improvements in our manufacturing business. The gross profit margin of our retail business remained relatively stable. The gross profit margins of our retail business and brand licensee business for the financial year ended September 30, 2008 were 32.3% and 45.9%, respectively.

OTHER INCOME

Our other income was US$27.7 million for the financial year ended September 30, 2008, representing an increase of US$13.5 million, or 94.9%, from US$14.2 million for the financial year ended September 30, 2007. Our other income increased primarily due to an increase of US$6.4 million in the cash discounts and sales bonus granted by brand suppliers, an increase of US$2.6 million in others and an increase of US$2.3 million in interest income from related parties.

SELLING AND DISTRIBUTION EXPENSES

Our selling and distribution expenses were US$228.6 million for the financial year ended September 30, 2008, representing an increase of 92.4% from US$118.8 million for the financial year ended September 30, 2007. The increase was due to: (i) rental expenses, which increased by 90.4% to US$106.3 million, primarily due to the expansion in the number of our retail outlets; (ii) staff costs, which increased by 103.1% to US$48.3 million, primarily

MANAGEMENT DISCUSSION AND ANALYSIS

due to the increase in number of employees, the increased bonus paid to our staff as a result of higher revenue and the increase in employee social securities provision as a result of the newly introduced labor laws in the PRC; (iii) general expenses, which increased by US$9.4 million to US$11.5 million; and (iv) royalty expenses, which increased by 46.9% to US$19.9 million, primarily due to higher sales achieved by our brand licensee business.

ADMINISTRATIVE EXPENSES AND LISTING EXPENSES

Our administrative expenses and listing expenses were US$65.6 million for the financial year ended September 30, 2008, representing an increase of 75.3% from US$37.4 million for the financial year ended September 30, 2007. The increase was primarily due to (i) an increase of US$7.0 million, or 71.3% in general expenses; (ii) US$6.6 million in professional fee related to our listing on the Stock Exchange on June 6, 2008; (iii) an increase of US$6.5 million, or 28.7%, in staff costs, as a result of the increase in number of employees and the increase in employee social securities provision as a result of the newly introduced labor laws in the PRC; and (iv) an increase of US$3.5 million, or 181.7%, in corporate rental expenses.

FAIR VALUE CHANGES ON DERIVATIVE FINANCIAL INSTRUMENTS

Fair value changes on derivative financial instruments were US$8.9 million for the financial year ended September 30, 2008, increasing from nil for the financial year ended September, 2007. In the second half of 2007, we began to enter into call option agreements with our joint venture partners. As at September 30, 2008, we had entered into call option agreements with our partners in 15 regional joint ventures in which we have minority interests, and with the minority shareholders of three of our non-wholly owned subsidiaries.

FINANCE COSTS

Our finance costs were US$17.6 million for the financial year ended September 30, 2008, representing an increase of 375.7% from US$3.7 million for the financial year ended September 30, 2007. This was primarily due to an increase in the amount of the average monthly outstanding borrowings during the financial year ended September 30, 2008.

SHARE OF RESULTS OF ASSOCIATES

Our share of results of associates increased to US$8.0 million for the financial year ended September 30, 2008, from US$0.1 million for the financial year ended September, 2007. The increase was primarily due to the increased contribution from our three associates invested by us.

SHARE OF RESULTS OF JOINTLY CONTROLLED ENTITIES

Our share of results of jointly controlled entities increased to US$23.3 million for the financial year ended September 30, 2008, from US$3.0 million for the financial year ended September 30, 2007. The increase was primarily due to the increased contribution from our 13 jointly controlled entities invested by us.

PROFIT BEFORE TAXATION

As a result of the factors listed above, our profit before taxation increased by 72.0% to US$100.5 million for the financial year ended September 30, 2008, from US$58.4 million for the financial year ended September 30, 2007.

INCOME TAX EXPENSE

Our taxation expense was US$20.8 million for the financial year ended September 30, 2008, representing an increase of 43.4%, from US$14.5 million for the financial year ended September 30, 2007, which was primarily due to an increase in profit before taxation. The effective tax rate decreased to 20.7% for the financial year ended September 30, 2008, as compared with 24.8% for the financial year ended September 30, 2007.

PROFIT FOR THE YEAR

As a result of the above factors, our profit for the financial year ended September 30, 2008 was US$79.7 million, representing an increase of US$35.8 million, or 81.6%, from US$43.9 million for the financial year ended September 30, 2007.

For the financial year ended September 30, 2008, our profit attributable to equity holders of the Company (excluding fair value changes on derivative financial instruments) of US$61.1 million was 4.7% lower than the profit forecast of US$64.1 million stated in the IPO prospectus dated May 26, 2008. The shortfall was primarily due to (i) the worst snowstorm that the PRC has experienced in the past fifty years, the massive earthquake in Sichuan Province, and the extensive flooding after heavy rainstorms over vast areas across Guangdong and Guangxi Provinces, all of which weakened consumer sentiment in the PRC; (ii) the decrease in pedestrian traffic during the Beijing Olympics as a result of tighter security controls and the general public being attracted to the Olympic events; and (iii) the global financial crisis, which had a negative impact on the Chinese economy and the general consumer sentiment. Together, these factors led to an increase in inventories level which resulted in higher selling discounts and ultimately reduced the overall profitability of the Group.

MINORITY INTERESTS

Minority interests were US$9.7 million for the financial year ended September 30, 2008, representing an decrease of 19.4% from US$12.0 million for the financial year ended September 30, 2007.

PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF OUR COMPANY

Our profit attributable to equity holders of the Company was US$70.0 million for the financial year ended September 30, 2008, representing an increase of US$38.1 million, or 119.4%, from US$31.9 million for the financial year ended September 30, 2007.

WORKING CAPITAL EFFICIENCY

The average inventory turnover days for the financial year ended September 30, 2008 and 2007 were 107.7 days and 88.5 days respectively. The increase was primarily due to the upfront inventory stock-up related to our new retail outlets, which would typically require a certain period of time before their revenue ramps up to a stable level.

The average trade receivables turnover days for the financial year ended September 30, 2008 and 2007 were 39.0 days and 34.6 days respectively. Average trade receivables turnover days remained consistent with the credit terms of 30 to 45 days that the Group granted to its department store counters and retail distributors.

The average trade and bill payables turnover days for the financial year ended September 30, 2008 and 2007 were 51.7 days and 57.3 days respectively. Average trade and bill payables turnover days decreased as a result of our proactive strategy to maximize the cash rebate incentives offered by the brand companies in exchange for quicker payment for merchandise.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's net cash and cash equivalents as at September 30, 2008 rose 114.1% to US$183.3 million from US$85.6 million as at September 30, 2007. As at September 30, 2008, the working capital of the Group was US$255.5 million, an increase from negative US$15.6 million as at September 30, 2007.

As at September 30, 2008, the Group's current ratio was 154.8%, compared to 95.4% as at September 30, 2007 and gearing ratio (total borrowings divided by total assets) was 27.4%, compared to 23.6% as at September 30, 2007. The Group's total borrowings at as September 30, 2008 increased 139.0% to US$312.1 million from US$130.6

MANAGEMENT DISCUSSION AND ANALYSIS

million as at September 30, 2007, primarily as a result of additional bank borrowings raised to fund working capital needs for retail network expansion, as well as the expansion of the property leasing and management business. The maturity profile of bank borrowings was spread over around a period of 1 year, with US$306.3 million payable within one year and US$5.8 million payable in more than one year but not exceed two years. The Group's bank borrowings were denominated mainly in Renminbi and cash and cash equivalents were mainly held in Renminbi as well. The amount of borrowings at fixed interest rates amounted to US$11.9 million for the year ended September 30, 2008. We have used a portion of the net proceeds from our initial public offering to repay the entire balance of the additional borrowings and the bank borrowings that we borrowed for the purposes of providing shareholder's loans to some of our regional joint ventures. Our borrowing was mainly for shorten term loan and generally matured within one year and rolled over continuously. For the foreseeable future, we believe our liquidity requirement will be satisfied using a combination of the proceeds raised from the global offering, the cash provided by the operating activities and short term or long term borrowings.

During the financial year ended September 30, 2008, net cash outflow from operating activities was US$139.9 million, as compared to US$9.6 million net cash inflow from the financial year ended September 30, 2007. The net cash outflow for the financial year ended September 30, 2008 was primarily due to an increase in inventories as a result of the continued expansion of our retail business, and an increase in trade and other receivables mainly as a result of increased sales generated by our department store counters and retail distributors from which we generally received payments for our products within 30 to 45 days from the invoice date. These factors were partially offset by the substantial improvements in our profit before taxation for the financial year ended September 30, 2008 compared to the corresponding period in 2007.

Net cash used in investing activities during the financial year ended September 30, 2008 was US$134.9 million compared to US$186.6 million for the financial year ended September 30, 2007. During the year under review, the Group invested approximately US$77.2 million on purchases of property, plant and equipment, and made advances of US$31.8 million to jointly controlled entities.

Net cash generated from financing activities during the financial year ended September 30, 2008 was US$364.5 million compared to US$217.7 million for the financial year ended September 30, 2007. During the year under review, the Group had inflows of US$572.3 million from bank borrowings raised. This was partially offset by US$400.1 million of repayment of bank borrowings.

On June 6, 2008, the Company was successfully listed on the Main Board of the Stock Exchange and has received net proceeds of US$316.4 million after over-allotment option was partially exercised, which further strengthened the Group's financial position.

CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

As at September 30, 2008, the Group had total capital commitments of US$21.5 million, US$4.9 million and US$1.5 million in respect of acquisition of property, plant and equipment, capital investment in associates and jointly controlled entities respectively.

As at September 30, 2008, the Group had total contingent liabilities of US$39.3 million and US$7.3 million in respect of guarantee given to banks regarding banking facilities granted to jointly controlled entities and associates respectively.

FOREIGN EXCHANGE

The Group conducts the business primarily in the PRC with the most of our transactions denominated and settled in Renminbi. An appreciation or depreciation may cause an inflation and deflation of the US dollar translation in our financial statements as we use US dollars as our reporting currency. As at September 30, 2008, the Group had no significant hedge on the foreign exchange.

MANAGEMENT DISCUSSION AND ANALYSIS

PROSPECTS

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

CONTINUED IMPROVEMENT ON THE EXISTING OPERATING AND EXPANSION OF OUR RETAIL NETWORK AND BRAND PORTFOLIO

In our retail business, we plan to continue to improve the operating efficiency of our existing outlets. We aim to improve our existing retail outlets' performance, by effectively comprehending our competitors' movements, understanding the consumers better, precisely identifying our market position and fulfilling our consumers' needs.

We have call options in 15 of our regional joint ventures and three of our non-wholly owned subsidiaries that give us the right to acquire the entire remaining interests and controls, but only to joint ventures that perform up to standard. At the appropriate time, we will selectively exercise the call options to acquire the remaining interests in leading regional retailers that we believe will strengthen our existing market position according to the schedule laid out in the Prospectus.

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

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

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

HUMAN RESOURCES

As at September 30, 2008, the Group had a total of 25,820 employees. We review the performance of our employee annually, the results of which are used in annual salary review and promotional appraisals. In order to remain competitive in the labor market, we also conduct research on remuneration packages that offered by other companies in the same industry. For our senior management, we reward our senior management with annual bonuses based on various performance criteria, as a part of our remuneration policies of our senior management, we have in place two share based remuneration scheme, the principal terms of which have been set out in the Prospectus. In addition, we also provide our employees with mandatory retirement funds, insurance and medical coverage. The Group also offers training programs based on the personal career development to its employees.

SHARE-BASED REMUNERATION SCHEMES

The principal terms and conditions of the Pre-IPO Share Subscription Plan and the Share Option Scheme, which were conditionally approved by resolutions of the sole shareholder of the Company on May 14, 2008, are set out in the section headed "Share-Based Remuneration Scheme" in Appendix VIII to the Prospectus. At the date of this report, no option has been granted under the Share Option Scheme. All invitations made and accepted under the Pre-IPO Share Subscription Plan were disclosed in the Prospectus. No further invitations have been made.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

BIOGRAPHICAL DATA OF DIRECTORS

Mr. TSAI David, Nai Fung

TSAI David, Nai Fung, aged 58, is our chairman and non-executive Director. Prior to joining the Company in April 2008 and Yue Yuen Group in February 1997, he was the chairman of Pou Yuen Industrial Holdings Limited. Mr. Tsai does not participate in the day-to-day operations of the Group. He has been working in the footwear sector since June 1968 and is well known in the industry. Through his time in Pou Yuen Industrial Holdings Limited and Yue Yuen, he has worked regularly with leading global athletic and casual footwear brands. Mr. Tsai is the managing director of Yue Yuen Group. He is responsible for its overall management and strategic planning, including sales and marketing activities. Mr. Tsai also serves as a board director of Pou Chen Corporation and was previously a board director of Elitegroup Computer Systems Co., Ltd. (a company listed on the Taiwan Stock Exchange). Mr. Tsai is a cousin of Ms. Tsai Patty, Pei Chun, a non-executive Director. Mr. Tsai personally held 30,370,000 Shares in the Company as at September 30, 2008.

Mr. KU Edward, Yu-Sun

KU Edward, Yu-Sun, aged 66, joined the Company in November 2007 and is our vice-chairman and non-executive Director. He joined Yue Yuen Group in February 1997 and is its general counsel, responsible for legal, organizational matters, mergers and acquisitions, corporate social responsibility and certain special projects. He does not participate in the day-to-day operations of the Group. Mr. Ku was previously the senior partner in the law firm, Ku & Fong, in Los Angeles, and is licensed to practice law in California U.S.A. and Taiwan. He received a Bachelor-in-law degree from the National Taiwan University in 1965 and a J. D. degree in 1970 from Washington University in St Louis, in the United States. At present, Mr. Ku is an executive director of Yue Yuen. He also serves as a director of Eagle Nice (International) Holdings Limited (a company listed on the Stock Exchange) and Symphony Holdings Limited (a company listed on the Stock Exchange).

Mr. HUANG Tsung Jen

HUANG Tsung Jen, aged 57, is the Group's chief executive officer, president and executive Director. Mr. Huang joined the Group in June 1998 and the Company in April 2008 and is primarily responsible for overseeing the overall strategies, planning and day-to-day operations and management of the Group. Mr. Huang is the chairman of various subsidiaries of the Group. He has over 30 years of experience in sportswear manufacturing, sales and marketing industry. Mr. Huang completed the Engineer-manager Program of National Taiwan University in 1982. Mr. Huang held 100% interest in Sports Group Limited and Sports Group Limited held 277,976,000 shares of the Company as at September 30, 2008. Pursuant to the Securities and Futures Ordinance, Mr. Huang was deemed to be interested in these 277,976,000 Shares.

Mr. LEE Chung Wen

LEE Chung Wen aged 56, is an executive Director and the Group's chief strategic officer. Prior to joining the Group in January 2002 and the Company in April 2008, Mr. Lee joined Yue Yuen Group in August 1988 and was its executive vice president, responsible for the manufacturing operations of certain major brands in the PRC, Vietnam and Indonesia. Mr. Lee is responsible for the implementation of the overall strategy of the Group. He is the chairman of various retail operating companies in which the Group has investments. He graduated from National Taiwan University with a Bachelor of Science in Engineering degree in 1975 and has more than 25 years' experience as a chemical engineer. Mr. Lee had accepted an invitation to subscribe for a total of 18,638,000 Shares subject to certain vesting conditions, representing approximately 0.53% of the issued share capital of the Company as at September 30, 2008, pursuant to the Company's pre-IPO share subscription plan.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. HUANG Chun Hua

HUANG Chun Hua, aged 44, an executive Director, joined the Group in January 2002 and the Company in April 2008. Mr. Huang joined Yue Yuen Group in 1989. He has been the general manager of certain retail companies in which the Group made investments and is responsible for overseeing the operations of such retail companies. He has also been overseeing the daily operations of the Group's manufacturing facilities at Taicang, PRC and is responsible for the strategic development of the Group's manufacturing business. Mr. Huang has more than 18 years of experience in management and is familiar with the sportswear business in the PRC. He graduated from Zhongnan University of Economics and Law with a Bachelor of Science in Economics degree in 1987. Mr. Huang had accepted an invitation to subscribe for 12,425,000 Shares subject to certain vesting conditions, representing approximately 0.35% of the issued share capital of the Company as at September 30, 2008, pursuant to the Company's pre-IPO share subscription plan.

Ms. TSAI Patty, Pei Chun

TSAI Patty, Pei Chun, aged 29, is a non-executive Director since April 2008. She joined Yue Yuen Group in December 2003 as a special assistant to the chairman of PCC and is responsible for the financial planning and investments of Yue Yuen Group. She does not participate in the day-to-day operations of the Group. Ms. Tsai graduated from the Wharton School of the University of Pennsylvania in May 2002 with a Bachelor of Science in Economics degree with a concentration in Finance and a College Minor in Psychology. She serves as a board director of Yue Yuen. She was previously a board of director of Mega Financial Holding Company Limited (a company listed on the Taiwan Stock Exchange). Ms. Tsai is a cousin of Mr. Tsai David, Nai Fung, the chairman of the Company. Ms. Tsai personally held 4,460,000 shares in the Company as at September 30, 2008.

Ms. CHANG Karen Yi-Fen

CHANG Karen Yi-Fen, aged 44, is an executive Director and has been serving as the Group's chief financial officer since she joined the Group in October 2007. Ms. Chang is primarily responsible for the finance related matters of the Group, including financial management and reporting, capital planning and allocation, investor relationships and internal controls of the Group. She has many years of financial management and investment banking experiences gained from working with KPMG in Washington DC and Los Angeles in the U.S., Jardine Fleming, Merrill Lynch and Credit Suisse in Shanghai and Hong Kong. She also worked for Semiconductor Manufacturer International Corporation (a company listed on the Stock Exchange) from 2003 to 2004 as Assistant Vice President of Finance. Ms. Chang received a Bachelor degree in Arts in English Literature from Fu-Jen Catholic University in Taiwan in 1986 and a Master of Business Administration degree from the George Washington University in Washington D.C. in the United States in 1988. Ms. Chang had accepted an invitation to subscribe for 14,910,000 Shares subject to certain vesting conditions, representing approximately 0.42% of the issued share capital of the Company as at September 30, 2008, pursuant to the Company's pre-IPO share subscription plan.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. LU Ning

Mr. LU Ning, age 41, joined the Company as an executive Director in September 2008 and is the general manager overseeing the retail operation of certain subsidiaries of the Group. Mr. Lu joined the Group in July 1997 as the national sale director of Converse brand in the PRC. In 2002, he acted as vice general manager of Beijing Baosheng Daoji Sports Goods Company Limited (北京寶盛道吉體育用品有限公司), responsible for the development of retail business in northern China. Mr. Lu is responsible for the development and operation of the Group's retail business in the entire PRC. Mr. Lu has over ten years of experience in the retail and wholesale industry in the PRC. Before joining the Group, he worked for Adidas Asia Pacific Guangzhou office as an assistant production manager from 1992 to 1997. Mr. Lu graduated from Beijing Institute Of Clothing Technology (北京服裝學院) in 1989 with a Bachelor degree in Engineering and University of Nanjing in 1996 with a Bachelor degree in Economics. Mr. Lu had accepted an invitation to subscribe for 15,975,000 Shares subject to certain vesting conditions, representing approximately 0.45% of the issued share capital of the Company as at September 30, 2008, pursuant to the Company's pre-IPO share subscription plan.

Mr. CHEN Huan-Chung

CHEN Huan-Chung, aged 53, was appointed as an independent non-executive Director in April 2008. Mr. Chen is an accountant of Wong Tong & Co., CPAS (萬通聯合會計師事務所), a certified public accountant of Taiwan and a certified securities investment analyst of Taiwan. Mr. Chen worked as a deputy manager in E.Sun Bills Finance Corporation of Taiwan (台灣玉山票券金融(股)公司副總經理). He became a certified public accountant of Taiwan in 1992 and a certified securities investment analyst of Taiwan in February 1990. He received a Bachelor degree from the Department of Industrial Management of National Taiwan University of Science and Technology (formerly known as National Taiwan Institute of Technology) in June 1983. Mr. Chen also serves as a board director of Global Brands Manufacture Ltd. (精成科技股份有限公司) (a company listed on the Taiwan Stock Exchange).

Mr. HU Sheng-Yih

HU Sheng-Yih, aged 66, was appointed as an independent non-executive Director in April 2008. Mr. Hu is an associate part-time professor at the College of Management, Shih Chien University. He worked as the first deputy general manager of Mega International Commercial Bank, and an officer-in-charge of The International Commercial Bank of China (New York Branch) (中國國際商業銀行紐約分行). He received a Master degree in Economics from the Yale University in 1981, a Master and Doctoral degree in Laws from the Chinese Culture University in 1971 and 1977, respectively, and a Bachelor degree in Economics from the National Taiwan University in 1967. Mr. Hu serves as a board director of Global Brands Manufacture Ltd. (精成科技股份有限公司) (a company listed on the Taiwan Stock Exchange). Mr. Hu also serves as independent director of Taiwan Shin Kong Commercial Bank (台灣新光商業銀行) and Shin Kong Securities Co. Ltd. (新壽綜合證券股份有限公司) (Shin Kong Financial Holding Co., Ltd. 新光金融控股股份有限公司, the parent company of both Taiwan Shin Kong Commercial Bank (台灣新光商業銀行) and Shin Kong Securities Co. Ltd. (新壽綜合證券股份有限公司), is listed on The Taiwan Stock Exchange).

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. MAK Kin Kwong

MAK Kin Kwong, aged 47, was appointed as an independent non-executive Director in April 2008. Mr. Mak is the managing director of Venfund Investment, a boutique investment banking firm, which he co-founded in late 2001. Prior to 2001, he was a partner of Arthur Andersen Worldwide and the managing partner of Arthur Andersen Southern China. Mr. Mak serves as an independent non-executive director and the audit committee chairman of Trina Solar Limited (天合光能有限公司) (a company listed in the United States), China GrenTech Corp. Ltd. (國人通信股份有限公司) (a company listed in the United States), Dragon Pharmaceutical Inc. (凱龍藥業股份有限公司) (a company listed in the United States), China Security and Surveillance Technology, Inc. (a company listed in the United States), Gemdale Industries Ltd (金地集團股份有限公司) (a company listed on the Shenzhen Stock Exchange), Huabao International Holdings Ltd (華寶國際控股有限公司) (a company listed on the Stock Exchange) and China Dongxiang (Group) Co., Ltd. (中國動向集團有限公司) (a company listed on the Stock Exchange). Mr. Mak is also a non-executive director of Bright World Precision Machinery Ltd. (沃得精機股份有限公司) (a company listed in the Republic of Singapore) and Vinda International Holdings Limited (維達國際控股有限公司) (a company listed on the Stock Exchange). He was previously an independent non-executive director of Shenzhen Victor Onward Textile Industrial Co., Ltd. (a company listed on the Shenzhen Stock Exchange). Mr. Mak graduated from the Hong Kong Polytechnic University in 1985 and was admitted as a fellow member of the Association of Chartered Certified Accountants, United Kingdom and the Hong Kong Institute of Certified Public Accountants.

Mr. CHENG Ming Fun Paul

CHENG Ming Fun Paul, aged 72, was appointed as an independent non-executive Director in April 2008. Mr. Cheng obtained a Bachelor of Arts degree from Lake Forest College (Illinois, United States) in 1958 and a Master's degree in Business Administration from the Wharton Graduate School of Business at the University of Pennsylvania U.S.A. in 1961. He has been an active corporate leader in Hong Kong and was formerly chairman of Inchcape Pacific Limited, N.M. Rothschild & Sons (Hong Kong) Limited, the American Chamber of Commerce in Hong Kong and the Hong Kong General Chamber of Commerce. Mr. Cheng was also a former chairman of The Link Management Limited, a listed company on the Stock Exchange which manages a portfolio of previously government-owned retail and car parking assets valued at over HK$30 billion from 2005 to 2007. In politics, he was a member of the Hong Kong Legislative Council prior to 1998 and was a member of the preparatory committee appointed by the PRC government to prepare for the reunification of the sovereignty of Hong Kong with the PRC during 1994 to 1998. Mr. Cheng is a Justice of Peace and was decorated "Chevalier de l'order de la Couronne" by the King of Belgium in 1991. He was made an honorary citizen of Nanjing city in the PRC in September 1994 and was appointed an economic adviser to Nanjing. In 2001, he was inducted into the Beta Gamma Sigma chapter of the Hong Kong University of Science and Technology in recognition of his community service and, more recently, he was made an honorary fellow of both the Hong Kong University of Science and Technology and the Chinese University of Hong Kong for his contribution towards education and community service. At present, Mr. Cheng is an honorary steward of the Hong Kong Jockey Club. He serves as Deputy Chairman of Esprit Holdings Limited (a company listed on the Stock Exchange and engaged in the retail and wholesale distribution business of quality lifestyle products), and he is also an independent non-executive director of Kingboard Chemical Holdings Limited (a company listed on the Stock Exchange), Vietnam Infrastructure Limited (a company listed on the AIM of the London Stock Exchange) and Pacific Alliance China Land Limited (a company listed on the AIM of the London Stock Exchange).

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

BIOGRAPHICAL DATA OF SENIOR MANAGEMENT

Mr. KU Wen Hao

KU Wen Hao, aged 40, is the general manager of Shengdao (Yangzhou) Sports Goods Development Company Limited (勝道(揚州) 體育用品開發有限公司). Mr. Ku is responsible for overseeing the Group's property leasing and management operations. Before joining us in December 2006, he worked as a senior officer in Taiwan Pou Chen Group (台灣寶成集團) and he also used to be the manager of Taiwan Barits Securities' Investment Banking Department (台灣倍利證券投資銀行部) and deputy manager of the Underwriting Department of Taiwan TIS Securities Ltd (台灣金鼎綜合證券投資銀行部). Mr. Ku received a Bachelor degree in Business from Chung Yuan Christian University in 1990.

Mr. LIN Tien-Te

LIN Tien-Te, aged 50, is the general manager of Pau Yuen Trading Corporation (寶原興業股份有限公司) and Pau Zhi Trading Corporation (寶智企業股份有限公司). Mr. Lin is responsible for our brand licensee business. He joined the Group in 2000 as the vice general manager of Guangzhou Baoyuen Industrial & Trading Company Limited (廣州寶元工貿有限公司). He resigned in 2003 and rejoined us in June 2005. Before joining the Group, Mr. Lin gained extensive experience in product development and business operation of sportswear in Taiwan and the PRC. He obtained a Master degree in Business Administration from Yuan Ze University in 2000.

Ms. CHONG Yim Kuen

CHONG Yim Kuen, aged 44, is our group's financial controller. She joined Yue Yuen Group as an assistant accounting manager in March 1993 and joined the group in March 2008. She was appointed as financial controller of our Company in July 2008. Ms. Chong received her Master degree in Administration (Accounting) from Jinan University, later obtained a Bachelor degree of Chinese Medicine from Hong Kong Baptist University. She became a certified public accountant in Hong Kong in 1995 and a fellow member of The Chartered Association of Certified Accountants in the United Kingdom in 2002.

Mr. CHUNG, Philip Yiu Keung

CHUNG, Philip Yiu Keung, aged 57, joined Yue Yuen Group in December 1996, serving its PRC subsidiary which engages in sportswear business as the manager responsible for the subsidiary's PRC business. He was promoted as the vice executive general manager of the subsidiary in 2000. In 2005, Mr. Chung was appointed as the general manager of both the subsidiary and a Yue Yuen Group's Hong Kong subsidiary engaging in sportswear business. In 2009, Mr. Chung was appointed as the general manager of the Company's Pau Yuen wholesale department, responsible for our wholesale operation in the PRC, Hong Kong and Taiwan. Mr. Chung is specialized and well-experienced in brand operation, business model and marketing in both Hong Kong and the PRC. Mr. Chung has worked with Taiwan Pou Chen International Group（台灣寶成國際集團） and several large companies, specializing in human resources management, factory administration and import/export operation management. Mr. Chung was graduated from the Department of Public Administration at Taiwan National Chengchi University.

DIRECTORS' REPORT

The directors of the Company (the "Directors") have pleasure in presenting the Group's annual report and the audited consolidated financial statements for the year ended September 30, 2008.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of the Group are (i) manufacturing and sales of OEM footwear, (ii) retailing of sportswear, (iii) distribution of licensed products and (iv) operation and management of sportswear malls.

CORPORATE REORGANIZATION

The Company was incorporated with limited liability in Bermuda on November 14, 2007.

Pursuant to a reorganization scheme to rationalize the structure of the Group in preparation for the public listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the companies now comprising the Group on May 23, 2008.

Details of the reorganization are set out in Note 1 to the consolidated financial statements.

The shares of the Company were listed on the Stock Exchange with effect from June 6, 2008 (the "Listing Date").

CHANGE OF COMPANY NAME

Pursuant to a written resolution passed by the sole member of the Company on December 6, 2007, the name of the Company was changed from Hao Dong International (Holdings) Limited to Pou Sheng International (Holdings) Limited with effect from December 10, 2007. 寶勝國際(控股)有限公司 was adopted as the new Chinese name of the Company in place of 好動國際(控股)有限公司 for identification purpose.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended September 30, 2008 are set out in the consolidated income statement on page 45 of the annual report.

The Directors do not recommend the payment of a final dividend and propose that the profits for the year be retained.

TRADING RESULTS AND PUBLISHED FORECAST

As set out in the Prospectus, the directors forecast a profit of the Group attributable to equity holders of the Company for the year ended September 30, 2008 of no less than US$68 million. The audited profit achieved amounted to approximately US$70 million. The surplus of approximately US$2 million is principally the net result of:

(i) The fair value gain of the Call Options (detailed of which are set out in Note 19) was US$8.9 million which exceeded the amount included in the forecast by approximately US$5 million.

(ii) A shortfall in operating profit due to the unexpected events that were beyond the Group's control, as explained more fully below.

The shortfall was primarily due to (i) the worst snowstorm that the PRC has experienced in the past fifty years, the massive earthquake in Sichuan Province, and the extensive flooding after heavy rainstorms over vast areas across Guangdong and Guangxi Provinces, all of which weakened consumer sentiment in the PRC; (ii) the decrease in pedestrian traffic during the Beijing Olympics as a result of tighter security controls and the general public being attracted to the Olympic events; and (iii) the global financial crisis, which had a negative impact on the Chinese economy and the general consumer sentiment. Together, these factors led to an increase in inventories level which resulted in higher selling discounts and ultimately reduced the overall profitability of the Group.

DIRECTORS' REPORT

SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITIES

Details of the principal subsidiaries, associates and jointly controlled entities of the Group at September 30, 2008 are set out in Notes 39, 40 and 41 to the consolidated financial statements, respectively.

SHARE CAPITAL

Details of the movements during the period from November 14, 2007 (date of incorporation) to September 30, 2008 in the share capital of the Company are set out in Note 27 to the consolidated financial statements.

THE REASONS FOR THE INITIAL PUBLIC OFFER

The Directors propose the listing of the Company as it believes that the separate listing of the Company (the "Listing") will be beneficial to the Group for the following reasons:

(a) **Increasing management focus and motivation**: The Listing will lead to a more direct alignment of the Group's management responsibilities and accountability with the operating and financial performance of the Group. This will result in enhanced management focus, which should in turn lead to improved decision-making processes, faster response-times to market changes and increased operational efficiency. The top management of the Company will be under increased scrutiny from the investor community and it will be possible to measure their performance against the stock market performance of the Company relative to the Company's industry peers listed on the Stock Exchange and other international stock exchanges. It will also be possible to link management incentives to such performance, thereby increasing management motivation and commitment.

(b) **Providing new sources of capital**: The Listing will enable the Company to have the flexibility to directly and independently access both equity and debt capital markets, as well as secure bank credit facilities.

(c) **Incentivising executives and staff:** Following the Listing, the Company would be able to offer equity based incentive programs (such as stock option scheme) that correlate directly the performance of the Retail Business to its employees and would therefore be in a better position to motivate its employees with incentive programs that closely align with the objective of shareholder value creation. It will also enhance the Company's ability to recruit the best talents available.

USE OF IPO PROCEEDS

The use of proceeds of Pou Sheng's global offering was as follows:

- approximately US$92 million, or approximately 29%, was used to expand Pou Sheng's retail network and geographical coverage for Pou Sheng's retail and brand licensee businesses, which include the opening of new retail outlets in prime locations of both major and emerging cities, the establishment of alternative retail formats such as sports complexes and multi-brand stores, the purchase of properties complementary to the expansion of its retail network and the acquisition, investment or entering into partnership with leading regional retailers;

- approximately US$128 million, or approximately 41%, was used to repay a portion of Pou Sheng's bank borrowings, which include the entire balance of the additional bank borrowings of approximately US$120 million that were raised prior to the listing of Pou Sheng for repaying the borrowings due to the minority shareholders of the subsidiaries of Yue Yuen and the subsidiaries of Yue Yuen;

- approximately US$27 million, or approximately 9%, was used to repay the bank borrowings that Pou Sheng borrowed for the purposes of providing shareholder's loans to some of our Regional Joint Ventures (as defined in the Prospectus);

USE OF IPO PROCEEDS (Continued)

- approximately US$16 million, or approximately 5%, was used to pay the cash portion of the call option premium which Pou Sheng agreed to provide to some of Pou Sheng's Call Option JVs' partners (as defined in the Prospectus); and
- approximately US$7 million, or approximately 2%, was used to increase Pou Sheng's promotional and marketing activities for Pou Sheng's brand licensee business, as well as further build its "YY Sports" brand through local and national advertising and promotional campaigns and unified branding that will reinforce the customer recognition of Pou Sheng as a leading sportswear retailer in the PRC.

As at September 30, 2008, approximately US$46 million of the proceeds of the Company global offering has not yet been applied but the Company intends to apply such amount for repayment of bank borrowings and business expansion. The un-utilized portion of the proceeds from the Company global offering has been placed into interest-bearing bank accounts.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in Note 11 to the consolidated financial statements.

REVALUED ASSETS

As set out in the Prospectus, the surplus of US$30.2 million arising from a revaluation of the Group's properties for the purpose of listing of the Company's shares would not be incorporated in the consolidated financial statements for the year ended September 30, 2008. These properties are included in the consolidated balance sheet at September 30, 2008 at US$68.4 million, being their historical costs less accumulated depreciation. Had the properties been stated at their revalued amounts in the consolidated financial statements, additional depreciation of US$0.3 million would have been charged against the consolidated income statement.

DONATIONS

During the year, the Group made charitable and other donations totalling approximately US$1.4 million.

DISTRIBUTABLE RESERVES OF THE COMPANY

As at September 30, 2008, the Company's reserves available for distribution to shareholders were US$153.0 million, which comprised of accumulated losses of approximately US$13.1 million and contributed surplus of approximately US$166.1 million.

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

(a) it is, or would after the payment be, unable to pay its liabilities as they become due; or

(b) the realizable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

DIRECTORS' REPORT

DIRECTORS

The Directors of the Company from November 14, 2007 (date of incorporation) to September 30, 2008 were:

Chairman and non-executive director
Tsai David, Nai Fung (appointed on April 29, 2008)

Vice-Chairman and non-executive director
Ku Edward, Yu-Sun (nominated on November 22, 2007)

Executive directors

Huang Tsung Jen	(appointed on April 29, 2008)
Lee Chung Wen	(appointed on April 29, 2008)
Huang Chun Hua	(appointed on April 29, 2008)
Chang Karen Yi-Fen	(nominated on November 22, 2007)
Lu Ning	(appointed on September 25, 2008)

Non-executive director
Tsai Patty, Pei Chun (appointed on April 29, 2008)

Independent non-executive directors ("INEDs")

Chen Huan-Chung	(appointed on April 29, 2008)
Hu Sheng-Yih	(appointed on April 29, 2008)
Mak Kin Kwong	(appointed on April 29, 2008)
Cheng Ming Fun Paul	(appointed on April 29, 2008)

Pursuant to Bye-law 86(2) and 87 of the Bye-laws of the Company ("Bye-law"), Mr. Tsai David, Nai Fung, Mr. Huang Tsung Jen, Mr. Lee Chung Wen, Mr. Huang Chun Hua, Ms. Chang Karen Yi-Fen, Mr. Lu Ning, Ms. Tsai Patty, Pei Chun, Mr. Chen Huan-Chung, Mr. Hu Sheng-Yih, Mr. Mak Kin Kwong and Mr. Cheng Ming Fun Paul will retire as Directors and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

All the non-executive Directors (including INEDs) are appointed for specific terms. All the Directors are also subject to retirement provisions under the Bye-laws.

Pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), each of the INEDs has filed an annual confirmation with the Company confirming his independence status with the Company as of September 30, 2008, and the Company considered that all INEDs meet the independence guidelines set out in Rule 3.13 of the Listing Rules and are independent.

DIRECTORS' SERVICE CONTRACTS

None of the Directors proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and senior management of the Group are set out on pages 18 to 22.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

At September 30, 2008, the interests or short positions of the Directors and chief executives of the Company in the shares and/or underlying shares and debentures of the Company or any of its associated corporations within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and the chief executives of the Company were deemed or taken to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in the Listing Rules, were as follows:

Long position

	Number of ordinary shares					
Name of director	Beneficial owner	Held by spouse and/or children under 18	Held by controlled corporation	Held by a discretionary trust	Total	Percentage of the issued share capital of the Company
Ordinary shares of HK$0.01 each of the Company						
Tsai David, Nai Fung	3,037,000	–	–	–	3,037,000	0.085%
Ku Edward, Yu-Sun	–	–	–	–	–	–
Huang Tsung Jen	–	–	277,976,000	–	277,976,000	7.79%
Tsai Patty, Pei Chun	4,460,000	–	–	–	4,460,000	0.125%
Chen Huan-Chung	–	–	–	–	–	–
Hu Sheng-Yih	–	–	–	–	–	–
Mak Kin Kwong	–	–	–	–	–	–
Cheng Ming Fun Paul	–	–	–	–	–	–
Ordinary shares to be issued under the pre-IPO subscription plan						
Lee Chung Wen*	18,638,000	–	–	–	18,638,000	0.52%
Huang Chun Hua*	12,425,000	–	–	–	12,425,000	0.35%
Chang Karen Yi-Fen*	14,910,000	–	–	–	14,910,000	0.42%
Lu Ning*	15,975,000	–	–	–	15,975,000	0.45%

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

DIRECTORS' REPORT

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

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

1. Pre-IPO Subscription Plan

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

Name	**Invitation date**	**No. of Plan shares (5 years plan)** (note i)	**No. of Plan shares (10 years plan)** (note ii)	**Total**
Directors				
Chang Karen Yi-Fen	May 23, 2008	8,520,000	6,390,000	14,910,000
Huang Chun Hua	May 23, 2008	7,100,000	5,325,000	12,425,000
Lee Chung Wen	May 23, 2008	10,650,000	7,988,000	18,638,000
Lu Ning	May 23, 2008	10,650,000	5,325,000	15,975,000
		36,920,000	25,028,000	61,948,000
Employees	May 23, 2008	34,081,000	28,223,000	62,304,000
		71,001,000	53,251,000	124,252,000

notes:

(i) 20% of the Plan shares shall be subscribed after each anniversary of the date of invitation.
(ii) 10% of the Plan shares shall be subscribed after each anniversary of the date of invitation.

No shares have been subscribed under the Plan up to the date of this report.

Further details of the Plan are set out in Note 34 to the consolidated financial statements.

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES (Continued)

2. Share Option Scheme

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

No share options were granted under the Scheme since its adoption.

Further details of the Scheme are set out in Note 34 to the consolidated financial statements.

Save as disclosed above, at no time during the period from November 14, 2007 (date of incorporation) to September 30, 2008 was the Company or any of its holding companies, fellow subsidiaries or subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

So far as is known to any Director or chief executive of the Company, as at September 30, 2008, shareholders (other than Directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which were required to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO were as follows:

Long position

Name of shareholder	Notes	Nature of interest	Number of ordinary shares beneficially held	Percentage of the issued share capital of the Company
Major Focus Management Limited ("Major Focus")	(a)	Beneficial interest	1,986,723,000	55.69%
Yue Yuen Industrial (Holdings) Limited ("Yue Yuen")	(a)	Interest of a controlled corporation	1,986,723,000	55.69%
Wealthplus Holdings Limited ("Wealthplus")	(a)	Interest of a controlled corporation	1,986,723,000	55.69%
Pou Chen Corporation ("PCC")	(a)	Interest of a controlled corporation	1,986,723,000	55.69%
Jollyard Investments Limited ("Jollyard")	(b)	Beneficial interest	366,945,000	10.29%
Sitori Trading Limited ("Sitori Trading")	(b)	Interest of a controlled corporation	366,945,000	10.29%
Shin Ching-I	(b)	Interest of a controlled corporation	366,945,000	10.29%
Sports Group Limited ("Sports Group")	(c)	Beneficial interest	277,976,000	7.79%
Huang Tsung Jen	(c)	Interest of a controlled corporation	277,976,000	7.79%
Chiang Lin-Lin	(c)	Spousal interest	277,976,000	7.79%

DIRECTORS' REPORT

SUBSTANTIAL SHAREHOLDERS' INTERESTS (Continued)

Notes:

(a) These shares are held by Major Focus which is a wholly-owned subsidiary of Yue Yuen. PCC is deemed to be interested in these shares under the SFO by virtue of its interests in more than one third of the voting shares in Wealthplus, which in turn is deemed to be interested in these shares under the SFO by virtue of its interest in more than one third of the voting shares in Yue Yuen. Yue Yuen is deemed to be interested in these shares under the SFO by virtue of its interests in more than one third of the voting shares in Major Focus. Wealthplus is wholly-owned by PCC and is interested in approximately 48.17% of the issued share capital of Yue Yuen. Mr. Ku Edward, Yu-Sun who is a director of the Company is also a director of Major Focus Management Limited. Mr. Tsai David, Nai Fung and Miss Tsai Patty, Pei Chun who are directors of the Company are also directors of Wealthplus Holdings Limited. Mr. Tsai David, Nai Fung is also a director of Pou Chen Corporation. Mr. Tsai David, Nai Fung, Mr. Ku Edward, Yu-Sun, and Miss Tsai Patty, Pei Chun are also directors of Yue Yuen.

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

(c) These shares are held by Sports Group which is wholly-owned by Mr. Huang Tsung Jen, an executive Director. Ms. Chiang Lin-Lin is the spouse of Mr. Huang Tsung Jen and is therefore deemed to be interested in these shares. Mr. Huang Tsung Jen who is a director of the Company is also a director of Sports Group Limited.

DIRECTOR'S INTERESTS IN COMPETING BUSINESS

Set out below are interests of Mr. Ku Edward, Yu-Sun, the vice-chairman and a non-executive Director, in a business which may compete with the business of the Group as at September 30, 2008:

Name of Director	Name of company	Nature of business	Nature of interest
Mr. Ku Edward, Yu-Sun	Symphony Holdings Limited	Manufacturing and sales of footwear products To a small extent, retail and wholesale business of apparel and footwear in the PRC	Directorship

Symphony Holdings Limited ("Symphony") is a company whose ordinary shares are listed on the main board of the Stock Exchange. According to public available information, as at September 30, 2008, Yue Yuen was interested in approximately 53.01% of the total issued share capital of Symphony through a jointly controlled entity in which Yue Yuen has 40% interest. Mr. Ku Edward, Yu-Sun, the vice-chairman and non-executive Director of the Company, is a director of Yue Yuen and Symphony, and may be regarded as having an interest in a potential competing business. Symphony and its subsidiaries have been operating under separate and independent management. The directorship of Mr. KU Edward, Yu-Sun in Symphony is for the purpose of representing Yue Yuen's interest on the board level of Symphony.

Three of the Directors, namely Mr. Tsai David, Nai Fung, Mr. Ku Edward, Yu-Sun, and Ms. Tsai Patty, Pei Chun, are also directors of Yue Yuen. Yue Yuen is the Company's controlling shareholder and whose principal activities are OEM/ODM footwear manufacturing business. As stated above, Yue Yuen also has equity investments in Symphony. As the Company and Yue Yuen are separate listed entities run by separate and independent management, the Directors believe that the Company is capable of carrying on its business independently of, and at arms length from Yue Yuen.

DIRECTOR'S INTERESTS IN COMPETING BUSINESS (Continued)

There is potentially little competition between the manufacturing business of the Company and Yue Yuen. On May 23, 2008, the Company entered into the business separation deed with Yue Yuen to put in place certain mechanisms to separate the Company's manufacturing businesses from those of Yue Yuen. During the period from the Listing Date to September 30, 2008, there were no new brand owners who asked the Company to manufacture for them. The independent non-executive directors of the Company are satisfied that this is the case.

Save as described above, as at September 30, 2008, none of the Directors had an interest in any business, which competes or may compete, directly or indirectly with the Group's business.

DIRECTORS' INTERESTS IN CONTRACTS

There was no contract of significance to which the Company, its holding company, fellow subsidiaries or subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the period from November 14, 2007 (date of incorporation) to September 30, 2008.

CONTINUING CONNECTED TRANSACTIONS

Following the listing of the Company on June 6, 2008 on the Stock Exchange and up to September 30, 2008, the Group conducted the transactions below which constitute non-exempted continuing connected transactions for the Company under the Listing Rules:-

Master Purchase Agreement

On May 23, 2008, the Company entered into a master purchase agreement ("Master Purchase Agreement") with Yue Yuen under which the Company agreed to source footwear and sportswear products and accessories from Yue Yuen and its associates. During the year ended September 30, 2008, subsidiaries of the Company purchased sportswear products of approximately US$6.3 million from Yue Yuen and its subsidiaries, associates and/or jointly controlled entities.

The exact terms of the purchases are to be set out in individual order. These purchases are (i) between non-PRC members of the Group and the Yue Yuen Group; and (ii) between PRC members of the Group and jointly controlled entities and/or associates of Yue Yuen. The Master Purchase Agreement took effect from the Listing Date and will end on September 30, 2010.

As Yue Yuen is a substantial shareholder of the Company, the conduct of transactions as contemplated under the Master Purchase Agreement constitute continuing connected transactions for the Company under the Listing Rules. Under the Master Purchase Agreement, the Company agreed to purchase through its subsidiaries and Yue Yuen agreed to procure its subsidiaries, jointly controlled entities and its associates to sell to members of the Group footwear and sportswear products and/or accessories on the following terms:-

(A) at market price; or

(B) on terms no less favourable to the Company than terms available from third parties.

CONTINUING CONNECTED TRANSACTIONS (Continued)

Financial assistance

Members of the Group advanced certain loans to a 50% owned joint venture company namely, Hubei Jiezhixing Clothing and Accessories Company Limited (湖北杰之行服飾有限公司) ("Hubei Jiezhixing") as working capital ("Joint Venture Loans"), the outstanding amount of which was approximately US$8.5 million as at September 30, 2008. Hubei Jiezhixing is a connected person of the Company as its other 50% owner is Mr. Qiu Xiaojie (邱小杰) who is a substantial shareholder and a director of a subsidiary of the Company, Hubei Shengdao Sports Goods Company Limited (湖北勝道體育用品有限公司). The provision of the loans to Hubei Jiezhixing therefore constitutes continuing connected transactions of the Company under the Listing Rules.

The Joint Venture Loans are provided under an entrusted loan arrangement whereby the relevant member of the Group deposits a sum of money ("Deposit Sum") with a commercial bank which will then lend such money to Hubei Jiezhixing. The commercial bank charges a handling fee in respect of the arrangement which is ultimately borne by Hubei Jiezhixing. Interest on the Joint Venture Loans, which cannot exceed or be less than the then highest and lowest rates set by the People's Bank of China, is borne by Hubei Jiezhixing and paid into the bank account of the relevant lending Group Member. As such, all interests and charges associated with the Joint Venture Loans are paid by Hubei Jiezhixing and therefore the effective cost to the lending Group member is zero. The Joint Venture Loans extended to Hubei Jiezhixing during the year ended September 30, 2008 are typically for a term of one year.

The Joint Venture Loans are on normal commercial terms which are fair and reasonable and are in the interests of the Shareholders as a whole.

Pursuant to Rule 14A.38 of the Listing Rules, the Board of Directors of the Company engaged the auditor of the Company to perform certain agreed upon procedures in respect of the purchase transactions with the Yue Yuen Group which were entered into after June 6, 2008. The auditor has reported its factual findings arising from these procedures to the Board of Directors. Pursuant to Rule 14A.37 of the Listing Rules, the independent non-executive directors have reviewed the continuing connected transactions and confirmed that the transactions were entered into by the Group in its ordinary course of business, on normal commercial terms or on terms no less favourable than terms available to or from independent third parties, if identified, and in accordance with the terms of the agreements governing such transactions that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Save as disclosed above, there were no other transactions which need to be disclosed as connected transactions in accordance with Chapter 14A of the Listing Rules.

RELATED PARTY TRANSACTIONS

Related party transactions entered into for the year are set out in note 36 to the consolidated financial statements and those transactions falling under the definition of "connected transaction" or "continuing connected transaction" (as the case may be) of the Listing Rules have been disclosed in this report under the section headed "Continuing Connected Transactions".

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

PENSION SCHEME

The employees employed in the PRC are members of the state-managed retirement benefit schemes operated by the PRC government. The PRC subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefit schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefit schemes is to make the required contributions under the schemes.

The Group also operates a Mandatory Provident Fund Scheme for all its qualifying employees in Hong Kong. The assets of the schemes are held separately from those of the Group in funds under the control of trustees. The Group contributes 5% of relevant payroll costs to the schemes which contribution is matched by employees.

MAJOR CUSTOMERS AND SUPPLIERS

Aggregate sales attributable to the Group's five largest customers were less than 30% of the Group's total sales.

Aggregate purchases attributable to the Group's largest and five largest suppliers were 30% and 66% of the Group's total purchases respectively.

At no time during the year did a director, an associate of a director or a shareholder of the Company (which to the knowledge of the director any more than 5% of the Company's share capital) have an interest in any of the Group's five largest suppliers.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Save under the initial public offering in June 2008, during the period from November 14, 2007 (date of incorporation) to September 30, 2008, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up by the board of Directors on the basis of their merit, qualifications and competence.

The emoluments of the Directors are recommended by the Remuneration Committee and are decided by the board of Directors, having regard to the Group's operating results, individual performance and comparable market statistics.

The Company has adopted two incentive plans which can be used to motivate and reward its Directors and eligible employees. Details of these plans are set out in Note 34 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws, or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

SUFFICIENCY OF PUBLIC FLOAT

Based on information publicly available to the Company and within the knowledge of the Directors as at the date of this annual report, the Company has maintained the prescribed public float under the Listing Rules for the period from the Listing Date to September 30, 2008.

DIRECTORS' REPORT

AUDITOR

Messrs. Deloitte Touche Tohmatsu will retire and a resolution for their re-appointment as auditor of the Company will be proposed at the forthcoming annual general meeting of the Company.

On behalf of the Board
Huang Tsung Jen
Chief Executive Officer

Hong Kong, January 13, 2009

CORPORATE GOVERNANCE REPORT

The board of directors ("Board") and the management of the Company recognize the importance of maintaining good corporate governance practices and procedures, hence corporate transparency and accountability can be practised. The Company believes that good corporate governance provides a framework that is essential for effective management, a healthy corporate culture, successful business growth and thereby enhancing shareholders' value. The Board is committed to achieving a high standard of corporate governance and to leading the Group to grow in an efficient manner directed by the Group's vision and mission.

CORPORATE GOVERNANCE PRACTICES

The shares of the Company commenced trading on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on June 6, 2008 (the "Listing Date"). Since the Listing Date until September 30, 2008, the Company has applied the principles of and has complied with all code provisions set out in the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

SECURITIES TRANSACTIONS BY DIRECTORS AND RELEVANT EMPLOYEES

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules. All directors of the Company (the "Directors") have confirmed, following specific enquiries made by the Company, that they have complied with the required standards as set out in the Model Code during the period from the Listing Date to September 30, 2008.

The Company has also adopted internal guidelines for securities transactions by relevant employees (the "Employees Guidelines") in October 2008 which are based on the Model Code. Specified employees who are likely to be in possession of unpublished price-sensitive information related to the Group and its activities must comply with the Employees Guidelines. Since the listing of the Company, the Company has not found any non-compliance by any such employees.

BOARD OF DIRECTORS

The Board has overall responsibility in formulating the strategic development of the Group, monitoring and controlling the Group's operation and financial performance.

The Group's management is delegated with the authority and responsibility by the Board for the management of the Group. The Board has also established an audit committee (the "Audit Committee") and a remuneration committee (the "Remuneration Committee"). Further details of these committees are provided hereafter.

The Board is made up of twelve Directors, including five executive Directors, three non-executive Directors and four independent non-executive Directors (the "INEDs"). Biographical information of the Directors is set out in this annual report under the heading "Biographical Details of Directors and Senior Management" on pages 18 to 22.

One of the four INEDs, Mr. Mak Kin Kwong, possesses appropriate professional accounting qualifications and financial management expertise for the purpose of, in compliance with the requirements set out in Rule 3.10(2) of the Listing Rules.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS (Continued)

The Board comprises the following Directors (some of whom also serve other offices as indicated against their names):

Name of Directors	Specific Position
Executive Directors	
Huang Tsung Jen	Chief Executive Officer
Lee Chung Wen	Chief Strategic Officer
Huang Chun Hua	
Lu Ning	
Chang Karen Yi-Fen	Chief Financial Officer
Non-executive Directors	
Tsai David, Nai Fung	Chairman
Ku Edward, Yu-Sun	Vice-Chairman and Chairman of the Remuneration Committee
Tsai Patty, Pei Chun	
Independent Non-executive Directors	
Chen Huan-Chung	
Hu Sheng-Yih	
Mak Kin Kwong	Chairman of the Audit Committee
Cheng Ming Fun Paul	

Appropriate and sufficient information was provided to each of the Directors to keep abreast of his/her responsibilities as a Director and of the conduct, business activities and development of the Group. Every newly appointed Director received a tailored induction upon his/her first appointment, and subsequently such briefing and professional development as is necessary, to ensure that he or she has a proper understanding of the operations and business of the Group and that he or she is fully aware of his or her responsibilities under applicable legal requirements and the business and corporate governance policies of the Group.

Amongst the Directors, Mr. Tsai David, Nai Fung and Ms. Tsai Patty, Pei Chun are cousins. Save as disclosed herein, to the best knowledge of the Company, there is no other financial, business or family relationship among the members of the Board.

All Directors are free to exercise their individual judgment and non-executive Directors have sufficient calibre to carry out their duties.

BOARD OF DIRECTORS (Continued)

The Board held four board meetings from the date of incorporation of the Company to September 30, 2008. The Board believes that the four board meetings held during the period from the date of incorporation of the Company to September 30, 2008 were adequate to cover all major issues during that period. In any event all Directors were available for consultation by management of the Group from time to time during the period. Attendance of each Director at board meetings is set out as follows:-

Name of Directors	Attendance
Executive Directors	
Huang Tsung Jen	4/4
Lee Chung Wen	4/4
Huang Chun Hua	4/4
Lu Ning*	0/0
Chang Karen Yi-Fen	4/4
Non-executive Directors	
Tsai David, Nai Fung	4/4
Ku Edward, Yu-Sun	3/4
Tsai Patty, Pei Chun	4/4
Independent Non-executive Directors	
Chen Huan-Chung	4/4
Hu Sheng-Yih	4/4
Mak Kin Kwong	4/4
Cheng Ming Fun Paul	4/4

* Mr. Lu Ning was appointed as Director on September 25, 2008.

Board Practices

The Board, led by the Chairman, is responsible for approving and monitoring the Group's overall strategies and policies; approving business plans; evaluating the performance of the Group; and overseeing sales and marketing activities of the Group. One of the important roles of the Chairman is to provide leadership to the Board, to ensure that the Board works effectively, discharges its responsibilities, and acts in the best interests of the Group and the shareholders of the Company (the "Shareholders"). The Chairman aims to ensure that all key and appropriate issues are discussed by the Board in a timely manner. All Directors have been consulted about any matters proposed for inclusion in the agenda of the board meetings. The Chairman has delegated the responsibility for drawing up the agenda for each board meeting to the company secretary. With the support of executive Directors and the company secretary, the Chairman seeks to ensure that all Directors are properly briefed on issues arising at board meetings and receive notice of the board meetings and adequate and reliable information in a timely manner typically not less than three days before the board meeting.

All Directors have made full and active contribution to the affairs of the Board and the Board acts in the best interests of the Group and the Shareholders. Apart from regular board meetings, the Chairman may also occasionally meet with the INEDs to discuss areas of potential improvement.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS (Continued)

The company secretary is responsible to the Board for ensuring that procedures of board meetings are followed and that the Board is fully briefed on all legislative, regulatory and corporate governance developments and has regard to them when making decisions. The company secretary is also directly responsible for the Group's compliance with the continuing obligations of the Listing Rules, Codes on Takeovers and Mergers and Share Repurchases, Companies Ordinance, Securities and Futures Ordinance and other applicable laws, rules and regulations.

The company secretary is asked to attend all regular board meetings; and the Qualified Accountant is asked to attend all regular audit committee meetings and to advise on accounting and financial matters when necessary. All Directors have full access to information on the Group and are able to seek independent professional advice whenever necessary. The company secretary prepares minutes and keeps records of matters discussed and decisions resolved at all board meetings. Draft and final versions of board minutes are sent to all Directors for their comments within a reasonable time after the board meeting.

The Directors and certain officers of the Group are under insurance cover on Directors' and officers' liabilities in respect of their risk exposure arising from the businesses of the Group.

The management of the Group is responsible for the day-to-day operations of the Group under the leadership of the Chief Executive Officer. The Chief Executive Officer, working with the management team, is responsible for overseeing and managing the businesses of the Group, including implementation of strategies adopted by the Board and assuming full accountability to the Board for the operations of the Group.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Chairman of the Board is Mr. Tsai David, Nai Fung and the Chief Executive Officer is Mr. Huang Tsung Jen.

The segregation of duties and responsibilities between the Chairman and the Chief Executive Officer have been clearly established. Mr. Tsai is responsible for the Group's overall management and strategic planning, including sales and marketing activities, but he does not participate in the day-to-day operations of the Group. Mr. Huang is primarily responsible for overseeing the overall strategies, planning and day-to-day operations and management of the Group.

NON-EXECUTIVE DIRECTORS

All non-executive Directors (including INEDs) are appointed for a specific term. All Directors are also subject to the retirement provisions under Bye-laws 86 and 87 of the Bye-laws of the Company.

All non-executive Directors participate in board meeting to bring independent judgment on strategy, policy, performance, accountability, resources, key appointments and standards of conduct; scrutinize the Group's performance in achieving agreed corporate goals and objectives; and monitor the reporting of the Group's performance.

Each of the INEDs has filed an annual confirmation with the Company confirming their independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all INEDs meet the independent guidelines set out in Rule 3.13 of the Listing Rules and are independent.

NOMINATION OF DIRECTORS

Directors are appointed, elected and/or removed in compliance with the provisions of the Bye-laws of the Company. In accordance with Bye-laws 86 of the Bye-laws of the Company, Shareholders at general meeting may authorise the Board to fill any vacancy left unfilled. According to Bye-laws 86 of the Bye-Laws of the Company, the Board has the power from time to time and at any time to appoint any person as a Director either to fill a causal vacancy on the Board or, subject to authorisation in general meeting, as an addition to the Board.

The current nomination procedures for appointment of new Directors would normally take into consideration of the candidates' past experience, qualifications and any other relevant factors. Any director can recommend and nominate new directors to the Board. Then, shortlisted candidates with their qualified profiles would be brought to the board meeting for consideration and the Board would select appropriate candidates from qualified candidates.

According to Bye-law 87 of the Bye-laws of the Company, one-third of the Directors (or if their numbers are not a multiple of three, the number nearest to but not less than one-third) for the time being shall retire from office by rotation at each annual general meeting of the Company provided that every Director shall be subject to retirement at least once every three years.

As at the date of this annual report, the Company has not set up a nomination committee. However, one board meeting was held during the period from the Listing Date to September 30, 2008 for appointment of a new director, i.e. Mr. Lu Ning. The record of attendance of individual director is listed out below:

Name of Directors	Attendance
Executive Directors	
Huang Tsung Jen	1/1
Lee Chung Wen	1/1
Huang Chun Hua	1/1
Lu Ning*	0/0
Chang Karen Yi-Fen	1/1
Non-executive Directors	
Tsai David, Nai Fung	1/1
Ku Edward, Yu-Sun	0/1
Tsai Patty, Pei Chun	1/1
Independent Non-executive Directors	
Chen Huan-Chung	1/1
Hu Sheng-Yih	1/1
Mak Kin Kwong	1/1
Cheng Ming Fun Paul	1/1

* Mr. Lu Ning was appointed as Director on September 25, 2008.

CORPORATE GOVERNANCE REPORT

AUDIT COMMITTEE

The Company has established the Audit Committee in May 2008 with specific written terms of reference, which are available on the Company's website.

The Audit Committee consists of two INEDs, namely Mr. Mak Kin Kwong (Chairman of the Audit Committee) and Mr. Cheng Ming Fun, Paul; and one non-executive Director, namely Ms. Tsai Patty, Pei Chun. In compliance with Rule 3.21 of the Listing Rules, the chairman of the Audit Committee possesses the appropriate professional and accounting qualifications.

The Audit Committee meets twice a year on a half yearly basis, or more frequently if required. Two audit committee meetings were held during the period from the Listing Date to September 30, 2008 and the record of attendance of individual member is listed out below:

Name of Directors	Attendance
Mak Kin Kwong (Chairman)	2/2
Cheng Ming Fun Paul	2/2
Tsai Patty, Pei Chun	2/2

Full minutes of the audit committee meetings were kept by the Company Secretary. Draft and final versions of minutes of the audit committee meetings were sent to all members of the Audit Committee for their comments within a reasonable time after the meeting.

Functions and Role

The primary functions of the Audit Committee are, inter alias, to assist the Board in fulfilling its responsibilities, to maintain appropriate relationship with external auditors, to review the Group's financial control, internal control and risk management, to review the annual and interim reports and other financial information provided by the Company to its Shareholders, the public and others, and to deal with other matters within the scope of its terms of reference.

The Audit Committee is responsible for considering the appointment of the external auditor and reviewing any non-audit functions performed by the external auditor, including whether such non-audit functions could lead to any potential material adverse effect on the Group.

In discharging its responsibilities, the Audit Committee performed the following work during the period from the Listing Date to September 30, 2008:

(i) reviewed the effectiveness of audit process in accordance with applicable standards;

(ii) reviewed the change in accounting principles and policies and assessment of potential impacts on the Group's financial statements;

(iii) reviewed the Group's internal control system and discussed the relevant issues including financial, operational and compliance controls and risk management functions; and

(iv) ensured co-ordination between the internal and external auditors of the Group, and ensured that the internal audit function was adequately resourced and reviewed and monitored the effectiveness of the internal audit function etc.

AUDITORS' REMUNERATION

During the year under review, the remuneration paid or to be payable to Messrs. Deloitte Touche Tohmatsu, the Company's external auditor, in respect of audit services rendered were approximately HK$4,368,000 and in respect of non-audit services rendered were approximately HK$14,793,090.

REMUNERATION OF DIRECTORS

The Remuneration Committee was established in May 2008 with specific written terms of reference which define the authority and duties of the committee. The terms of reference are available on the Company's website. The Remuneration Committee consists of one non-executive Director, namely Mr. Ku Edward, Yu-Sun (chairman of the Remuneration Committee) and two INEDs, namely Mr. Chen Huan-Chung and Mr. Hu Sheng-Yih.

Functions and Role

The primary objectives of the Remuneration Committee include the determination of remuneration policy, structure and remuneration packages of the Directors and senior management of the Group and the making of recommendations to the Board, and other related matters. In determining the remuneration package of Directors, the Remuneration Committee shall consider the qualifications and experience of each of the executive Directors and also remuneration policy of other comparable listed companies of similar business and size, time commitment and responsibilities of the Directors, employment conditions of the Company and its subsidiaries and the desirability of performance-based remuneration. The Remuneration Committee also ensures that the levels of remuneration should be sufficient to attract and retain the Directors to run the Company successfully but would avoid paying more than is necessary for this purpose.

In order to attract, retain and motivate talented eligible staff and officers, including the Directors, the Company has adopted a share option scheme (the "Share Option Scheme") and a pre-IPO subscription plan (the "Pre-IPO Subscription Plan"). The Share Option Scheme provides incentives to participants to work towards enhancing the value of the Company and its shares for the benefit of the Company and its Shareholders as a whole. The Pre-IPO Subscription Plan invites eligible persons to subscribe for the Company's shares at a discount of 30% to the price of the initial public offering of the Company (the "IPO"). The purpose of the Pre-IPO Subscription Plan is to recognize contributions of the eligible persons, to seek to retain them for the continued operation and development of the Group and to attract suitable personnel for the further development of the Group. Invitations for subscriptions under the Pre-IPO Subscription Plan to subscribe have been made and accepted before the IPO. No more invitations can be made under the Pre-IPO Subscription Plan. Details of the Share Options Scheme and the Pre-IPO Subscription Plan are set out in the Directors' Report and note 34 to the consolidated financial statements.

Since the establishment of the Remuneration Committee in May 2008, no meeting of the Remuneration Committee was held. None of the Directors can be involved in determining his or her own remuneration.

CORPORATE GOVERNANCE REPORT

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities with respect to the financial statements of the Group and ensure that they are prepared in accordance with statutory requirements and applicable accounting standards. With the assistance of the Qualified Accountant, the Directors also ensure the publication of the financial statements of the Group in a timely manner.

The report of the external auditors of the Company, Messrs. Deloitte Touche Tohmatsu, with regard to their reporting responsibilities on the Group's financial statements is set out in the Independent Auditor's Report on pages 43 and 44.

The Directors confirm that, to the best of their knowledge, information and belief after, having made all reasonable enquiries, they are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

INTERNAL CONTROLS AND RISKS MANAGEMENT

The Board has overall responsibilities for introducing and continuously maintaining sound and effective internal control system of the Group and reviewing its adequacy and effectiveness. It is committed to reviewing and implementing effective and sound internal control systems to safeguard Shareholders' interests. The Board has delegated to the management with defined structure and limits of authority, to conduct reviews on and maintenance of all material controls including proper financial and accounting records, operational and compliance and risk management functions as well as the implementation of the internal control system to ensure compliance with relevant legislations and regulations.

The Company has established its own internal audit department for reviewing the effectiveness of the Group's internal control system. The Group's internal control system will be reported by its internal audit department to members of the Audit Committee and will be reviewed on an ongoing basis by the Board to ensure the internal control system remain practical, sound and effective.

INVESTOR RELATIONSHIP AND COMMUNICATION

The Company endeavours to maintain good investor relationship with the Shareholders and potential investors by way of meeting them at annual general meetings, publishing interim and annual reports on the websites of the Company and the Stock Exchange, and releasing timely press releases on the Company's website.

The Company has set up its own website as a means to provide information on the Company to the Shareholders and investors and to communicate with them directly and effectively. Further, the Company's investor relations department is responsible for handling general public relation and investor relation matters. Shareholders are also encouraged to attend the Company' annual general meetings for which a notice would be served with at least 21 days period. The Chairman and/or the Directors are available to answer questions on the Group's business at the meetings.

Deloitte.
德勤

TO THE MEMBERS OF POU SHENG INTERNATIONAL (HOLDINGS) LIMITED
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Pou Sheng International (Holdings) Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 45 to 109, which comprise the consolidated balance sheet as at September 30, 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated 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 the consolidated 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 consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

INDEPENDENT AUDITOR'S REPORT

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of the Group's affairs as at September 30, 2008 and of its 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.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
January 13, 2009

CONSOLIDATED INCOME STATEMENT

For the year ended September 30, 2008

	Notes	2008 US$'000	2007 US$'000
Revenue	5	959,548	555,903
Cost of sales		(615,184)	(354,893)
Gross profit		344,364	201,010
Other income		27,733	14,226
Selling and distribution expenses		(228,615)	(118,842)
Administrative expenses		(58,980)	(37,423)
Listing expenses		(6,631)	–
Fair value changes on derivative financial instruments	19	8,945	–
Finance costs	6	(17,643)	(3,710)
Share of results of associates		7,987	108
Share of results of jointly controlled entities		23,304	3,049
Profit before taxation		100,464	58,418
Income tax expense	7	(20,763)	(14,484)
Profit for the year	8	79,701	43,934
Attributable to:			
Equity holders of the Company		70,024	31,927
Minority interests		9,677	12,007
		79,701	43,934
Earnings per share	10		
– basic		2.9 US cents	2.4 US cents
– diluted		2.8 US cents	N/A

CONSOLIDATED BALANCE SHEET

At September 30, 2008

	Notes	2008 US$'000	2007 US$'000
Non-current assets			
Property, plant and equipment	11	169,564	102,056
Deposit for acquisition of property, plant and equipment	12	22,447	13,286
Prepaid lease payments	13	15,772	5,169
Goodwill	14	2,101	2,101
Interests in associates	15	20,357	10,922
Loan to an associate	15	7,304	–
Interests in jointly controlled entities	16	65,207	33,036
Loans to jointly controlled entities	16	75,604	39,915
Rental deposits and prepayments		35,408	21,797
Deferred tax assets	26	1,908	–
		415,672	228,282
Current assets			
Inventories	17	250,623	112,375
Trade and other receivables	18	217,485	98,159
Rental deposits and prepayments		5,855	3,437
Prepaid lease payments	13	482	125
Taxation recoverable		154	–
Derivative financial instruments	19	59,744	–
Amounts due from related parties	20	1,801	20,616
Pledged bank deposits	21	2,337	–
Bank balances and cash	22	183,253	90,936
		721,734	325,648
Current liabilities			
Trade and other payables	23	151,275	114,458
Taxation payable		6,728	9,101
Amounts due to related parties	24	1,919	112,382
Bank borrowings	25	306,288	99,975
Bank overdrafts	22	–	5,352
		466,210	341,268
Net current assets (liabilities)		255,524	(15,620)
Total assets less current liabilities		671,196	212,662

CONSOLIDATED BALANCE SHEET (Continued)

At September 30, 2008

	Notes	2008 US$'000	2007 US$'000
Non-current liabilities			
Bank borrowings	25	5,843	25,273
Deferred tax liabilities	26	3,044	–
		8,887	25,273
		662,309	187,389
Capital and reserves			
Share capital and paid up capital	27	4,575	53,488
Reserves		641,141	84,929
Equity attributable to equity holders of the Company		645,716	138,417
Minority interests		16,593	48,972
Total equity		662,309	187,389

The consolidated financial statements on pages 45 to 109 were approved and authorised for issue by the Board of Directors on January 13, 2009 and are signed on its behalf by:

Huang Tsung Jen
CHIEF EXECUTIVE OFFICER

Chang Karen Yi-Fen
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended September 30, 2008

	Equity attributable to equity holders of the Company										
	Share capital and paid up capital US$'000 (note 27)	Share premium US$'000	Special reserve US$'000 (note (i))	Other reserve US$'000 (note (iii))	Share-based compensation reserve US$'000	Non-distributable reserve US$'000 (note (ii))	Translation reserve US$'000	Accumulated profits US$'000	Total US$'000	Minority interests US$'000	Total US$'000
At October 1, 2006	17,101	-	-	-	-	2,325	1,945	14,997	36,368	15,294	51,662
Exchange difference arising on the translation of financial statements recognized directly in equity	-	-	-	-	-	-	2,954	-	2,954	1,545	4,499
Profit for the year	-	-	-	-	-	-	-	31,927	31,927	12,007	43,934
Total recognized income and expense for the year	-	-	-	-	-	-	2,954	31,927	34,881	13,552	48,433
Incorporation/establishment of subsidiaries	36,387	30,781	-	-	-	-	-	-	67,168	20,445	87,613
Acquisition of business	-	-	-	-	-	-	-	-	-	4,883	4,883
Acquisition of additional interests in subsidiaries	-	-	-	-	-	-	-	-	-	(4,677)	(4,677)
Repatriation of capital	-	-	-	-	-	-	-	-	-	(160)	(160)
Dividend paid to a minority shareholder of a subsidiary	-	-	-	-	-	-	-	-	-	(365)	(365)
Transfer	-	-	-	-	-	4,130	-	(4,130)	-	-	-
At September 30, 2007	53,488	30,781	-	-	-	6,455	4,899	42,794	138,417	48,972	187,389
Exchange difference arising on the translation of financial statements recognized directly in equity	-	-	-	-	-	-	29,932	-	29,932	2,826	32,758
Profit for the year	-	-	-	-	-	-	-	70,024	70,024	9,677	79,701
Total recognized income and expense for the year	-	-	-	-	-	-	29,932	70,024	99,956	12,503	112,459
Incorporation/establishment of a subsidiary	12,000	-	-	-	-	-	-	-	12,000	-	12,000
Arising from the Group Reorganization	(65,488)	(30,781)	96,269	-	-	-	-	-	-	-	-
Issue of shares	1,189	361,254	-	-	-	-	-	-	362,443	-	362,443
Issue of shares for acquisition of additional interests in subsidiaries	12	255,865	-	(211,176)	-	-	-	-	44,701	(44,701)	-
Transaction costs attributable to issue of new shares	-	(12,507)	-	-	-	-	-	-	(12,507)	-	(12,507)
Issue of shares by capitalization of share premium account	3,374	(3,374)	-	-	-	-	-	-	-	-	-
Recognitiion of equity-settled share-based payments	-	-	-	-	706	-	-	-	706	-	706
Dividend paid to a minority shareholder of a subsidiary	-	-	-	-	-	-	-	-	-	(181)	(181)
Transfer	-	-	-	-	-	6,878	-	(6,878)	-	-	-
At September 30, 2008	4,575	601,238	96,269	(211,176)	706	13,333	34,831	105,940	645,716	16,593	662,309

Notes:

(i) The special reserve represents the difference between the nominal value of the share capital issued by the Company and the share premium and the nominal value of the share capital of the subsidiaries comprising the Group prior to the Group Reorganization (as defined in Note 1).

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

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

CONSOLIDATED CASH FLOW STATEMENT

For the year ended September 30, 2008

	Note	2008 US$'000	2007 US$'000
OPERATING ACTIVITIES			
Profit before taxation		100,464	58,418
Adjustments for:			
Depreciation of property, plant and equipment		17,746	11,701
Impairment loss (reversal of impairment loss) recognized on trade receivables		85	(335)
Interest expense		17,643	3,710
Interest income		(4,073)	(1,067)
Loss on disposal of property, plant and equipment		766	25
Release of prepaid lease payments		257	51
Allowance (reversal of allowance) for inventories		297	(2,829)
Share of results of associates		(7,987)	(108)
Share of results of jointly controlled entities		(23,304)	(3,049)
Recognition of equity-settled share-based payments		706	–
Fair value changes on derivative financial instruments		(8,945)	–
Operating cash flows before movements in working capital		93,655	66,517
Increase in rental deposits and prepayments		(13,596)	(16,071)
Increase in inventories		(125,699)	(42,021)
Increase in trade and other receivables		(110,948)	(37,862)
Increase in trade and other payables		33,425	47,385
Cash (used in) generated from operations		(123,163)	17,948
Income tax paid		(20,782)	(9,462)
Interest income		4,073	1,067
NET CASH (USED IN) FROM OPERATING ACTIVITIES		(139,872)	9,553
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(77,193)	(68,195)
Advance to jointly controlled entities		(31,841)	(39,915)
Cash payment of call option premium		(16,104)	–
Additions of prepaid lease payments		(10,412)	(2,958)
Increase in deposit paid for acquisition of property, plant and equipment		(7,880)	(13,286)
Advance to an associate		(6,600)	–
Investments in jointly controlled entities		(4,187)	(29,717)
Increase in pledged bank deposits		(2,224)	–
Investments in associates		(326)	(4,916)
Repayment from (advance to) related parties		20,803	(19,359)
Proceeds from disposal of property, plant and equipment		1,019	538
Acquisition of business (net of cash and cash equivalents acquired)	29	–	(4,082)
Acquisition of additional interests in subsidiaries		–	(4,677)
NET CASH USED IN INVESTING ACTIVITIES		(134,945)	(186,567)

CONSOLIDATED CASH FLOW STATEMENT (Continued)

For the year ended September 30, 2008

	2008 US$'000	2007 US$'000
FINANCING ACTIVITIES		
New bank borrowings raised	572,329	245,216
Proceeds from issue of shares	328,921	–
Incorporation/establishment of subsidiaries	12,000	67,168
Repayment of bank borrowings	(400,145)	(185,058)
(Repayment of) advances from related parties	(116,297)	74,139
Interest paid	(19,573)	(3,710)
Payment of shares issued expenses	(12,507)	–
Dividend paid to a minority shareholder of a subsidiary	(181)	(365)
Capital contributed by minority shareholders of subsidiaries	–	20,445
Repatriation of capital by minority shareholders of subsidiaries	–	(160)
NET CASH FROM FINANCING ACTIVITIES	364,547	217,675
NET INCREASE IN CASH AND CASH EQUIVALENTS	89,730	40,661
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	7,939	626
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	85,584	44,297
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	183,253	85,584
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	183,253	90,936
Bank overdrafts	–	(5,352)
	183,253	85,584

1. General Information

The Company was incorporated in Bermuda on November 14, 2007 as an exempted company under the Companies Act 1981 of Bermuda (as amended) and its shares have been listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") with effect from June 6, 2008. The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information section to the annual report.

Through a group reorganization to rationalize the structure of the Company and its subsidiaries (the "Group") in preparation for the listing of the Company's shares on the Stock Exchange ("Group Reorganization"), the Company became the holding company of the Group on May 23, 2008 onwards.

In preparation for the listing of the Company's shares on the Stock Exchange, the following share exchanges and transfers took place on May 23, 2008:

(i) Yue Yuen Industrial (Holdings) Limited ("Yue Yuen") transferred its interests in the subsidiaries comprising the Group to YY Sports Holdings Limited ("YY Sports") and/or subsidiaries of YY Sports;

(ii) Certain minority interests in subsidiaries were acquired by YY Sports and/or subsidiaries of YY Sports from the respective minority shareholders;

(iii) The entire equity interests in YY Sports were transferred to the Company by means of an exchange of shares; and

(iv) The Company issued shares to Yue Yuen and the minority shareholders of the subsidiaries in consideration for the share transfers described above.

Further details of the Group Reorganization are set out in the prospectus issued by the Company, dated May 26, 2008 (the "Prospectus").

The Group resulting from the Group Reorganization is regarded as a continuing entity. Accordingly, the consolidated financial statements of the Group have been prepared using the principles of merger accounting in accordance with Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") as if the group structure under the Group Reorganization had been in existence throughout the two years ended September 30, 2008 or since their respective dates of incorporation or establishment or date of acquisition, whichever is the shorter period, in accordance with the respective equity interests in the individual companies attributable to Yue Yuen throughout the two years ended September 30, 2008 (while the results of the companies comprising the Group attributable to the shareholders other than Yue Yuen were accounted for as minority shareholders).

The Company's ultimate holding company is Yue Yuen, an exempted company incorporated in Bermuda with limited liability and its shares are listed on the Stock Exchange. The immediate holding company is Major Focus Management Limited, a private company incorporated in the British Virgin Islands.

The Company is an investment holding company. The principal activities of the Group are set out in Note 5.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended September 30, 2008

1. General Information (Continued)

The principal operations of the Group are conducted in the People's Republic of China ("PRC"). The consolidated financial statements are presented in United States Dollar ("USD"), which is different from the functional currency of the Company, Renminbi ("RMB"). The directors consider that presenting consolidated financial statements in USD is preferable when controlling and monitoring the performance and financial position of the Group and in reporting to Yue Yuen whose functional currency is USD.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS(s)")

In the current year, the Group has applied, for the first time, a number of new standard, amendments and interpretations ("new HKFRSs") issued by the HKICPA, which are effective for the Group's financial year beginning on or after October 1, 2007.

HKAS 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HKAS 39 & HKFRS 7 (Amendments)	Reclassification of Financial Assets
HK(IFRIC) – Int 10	Interim Financial Reporting and Impairment
HK(IFRIC) – Int 11	HKFRS 2 – Group and Treasury Share Transactions

The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

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

HKFRSs (Amendments)	Improvements to HKFRSs[1]
HKAS 1 (Revised)	Presentation of Financial Statements[2]
HKAS 23 (Revised)	Borrowing Costs[2]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[3]
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[2]
HKAS 39 (Amendment)	Eligible Hedged Items[3]
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[2]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[2]
HKFRS 3 (Revised)	Business Combinations[3]
HKFRS 8	Operating Segments[2]
HK(IFRIC) – Int 12	Service Concession Arrangements[4]
HK(IFRIC) – Int 13	Customer Loyalty Programmes[5]
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[4]
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate[2]
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation[6]
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners[3]

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS(s)") (Continued)

[1] Effective for annual periods beginning on or after January 1, 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after July 1, 2009
[2] Effective for annual periods beginning on or after January 1, 2009
[3] Effective for annual periods beginning on or after July 1, 2009
[4] Effective for annual periods beginning on or after January 1, 2008
[5] Effective for annual periods beginning on or after July 1, 2008
[6] Effective for annual periods beginning on or after October 1, 2008

The adoption of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the annual reporting period beginning on or after July 1, 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a change of control, which will be accounted for as equity transactions.

HK(IFRIC) – Int 13 will affect the accounting of the customer award credits of the Group where it will be accounted for as a separately identifiable component of the sales transactions. The fair value of the consideration received or receivable is allocated between the award credits and the other components of the sale. The consideration allocated to the award credits is measured by reference to their fair values i.e. the amount for which the award credits could be sold separately. Currently, the revenue is recognized in full and the customer award credits are expensed when the credits are redeemed. The directors of the Company anticipate that the application of HK(IFRIC) – Int 13 will have an effect on the results and financial position of the Group but they are not yet in a position to determine the extent of its effect.

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

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial information of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial information of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation (Continued)
All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Purchase accounting for business combinations not involving entities under common control
The acquisition of business, other than those involving entities under common control, is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under *HKFRS 3 Business Combinations* are recognized at their fair values at the acquisition date.

Goodwill arising on acquisition is recognized as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognized. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognized immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognized.

Capitalized goodwill arising on an acquisition of a subsidiary is carried at cost less any accumulated impairment losses and is presented separately in the consolidated balance sheet.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalized is included in the determination of the amount of profit or loss on disposal.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Merger accounting for business combination involving entities under common control

The consolidated financial statements incorporate the financial statements items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are consolidated using the existing book values from the controlling parties' perspective. No amount is recognized in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated income statement includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, 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 common control, whichever is shorter.

Changes in equity interest in subsidiaries

The Group regards the acquisition/disposal of partial equity interest of subsidiaries from minority shareholders without changes in control as transactions with equity owners of the Group. When additional equity interest in a subsidiary is acquired, any difference between the consideration paid and the relevant share of the carrying value of the subsidiary's net assets acquired is recorded in equity (other reserve). When partial equity interest in a subsidiary is disposed to minority interest, any difference between the proceeds received and the relevant share of minority interest is also recorded in equity (other reserve).

Interests in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a jointly controlled entity.

The results and assets and liabilities of associates are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associates, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognizing its share of further losses. An additional share of losses is provided for and a liability is recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognized at the date of acquisition is recognized as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interests in associates (Continued)
Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after assessment, is recognized immediately in profit or loss.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Jointly controlled entity
Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, interests in jointly controlled entities are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of net assets of the jointly controlled entities, less any identified impairment loss. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity), the Group discontinues recognizing its share of further losses. An additional share of losses is provided for and a liability is recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the jointly controlled entity recognized at the date of acquisition is recognized as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

When a group entity transacts with a jointly controlled entity of the Group, profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity.

Revenue recognition
Revenue is measured at fair value of consideration received or receivable and represents amount receivable for goods sold and services provided in the normal course of business, net of discount and sales related taxes.

Revenue from sale of goods is recognized when the goods are delivered and title has passed.

Service income is recognized when services are provided.

Rental income, including rentals invoiced in advance, from land and buildings under operating lease is recognized on a straight line basis over the period of the respective leases.

Interest income from financial assets are accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment

Property, plant and equipment, including land and buildings held for use in the production or supply of goods or services, or for administrative purposes, other than construction in progress, are stated at cost less subsequent accumulated depreciation and accumulated impairment loss.

Construction in progress represents property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognized impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is provided to write off the cost of items of property, plant and equipment, other than construction in progress, over their estimated useful lives and after taking into account their estimated residual value, using either the straight line method or reducing balance method.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the period in which the item is derecognized.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is calculated using the weighted average method.

Foreign currencies

In preparing the financial statements of the individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognized in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's entities are translated from their functional currencies into the presentation currency of the Group (i.e. USD) at the rate of exchange prevailing at the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized as a separate component of equity (the translation reserve). Such exchange differences are recognized in profit or loss in the period in which the relevant foreign operation is disposed of.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are recognized as part of the cost of those assets. Capitalization of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for recognition.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income and expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the respective balance sheet dates.

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the consolidated financial information and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized. Deferred tax is charged or credited to the profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the terms of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognized as a reduction of rental expense over the lease terms on a straight-line basis.

The Group as lessor

Rental income from operating leases is recognized in the consolidated income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized as an expense on a straight-line basis over the lease term.

Leasehold land and building

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally treated as a finance lease and accounted for as property, plant and equipment. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases.

Research and development expenditure

Expenditure on research activities is recognized as an expense in the year in which it is incurred.

Where no internally generated intangible asset can be recognized, development expenditure is recognized as an expense in the year in which it is incurred.

Financial instruments

Financial assets and financial liabilities are recognized on the consolidated balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets

The Group's financial assets are classified as loans and receivables and financial assets at fair value through profit or loss ("FVTPL").

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognized on an effective interest basis for debt instruments.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)
Financial assets (Continued)
Financial assets at fair value through profit or loss
Financial assets at FVTPL of the Group include derivatives that are not designated and effective as a hedging instrument.

At each balance sheet date subsequent to initial recognition, financial assets at FVTPL are measured at fair value, with changes in fair value recognized directly in profit or loss in the period in which they arise. The net gain or loss recognized in profit or loss excludes any dividend or interest earned on the financial assets.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables, amounts due from related companies, loans to an associate and jointly controlled entities, pledged bank deposits and bank balances) are carried at amortized cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Impairment of financial assets
Financial assets, other than those at FVTPL are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30 days to 90 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, an impairment loss is recognized in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)
Financial assets (Continued)
Impairment of financial assets (Continued)
The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

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

Financial liabilities and equity
Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Effective interest method
The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognized on an effective interest basis.

Financial liabilities
The Group's financial liabilities including trade and other payables, amounts due to related companies and bank borrowings are subsequently measured at amortized cost, using the effective interest method.

Equity instruments
Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue cost.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Derivative financial instruments

A derivatives is initially recognized at fair value at the date a derivative contract is entered into and is subsequently remeasured to its fair value at each balance sheet date. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognized in profit or loss.

Derecognition

Financial assets are derecognized when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognized directly in equity is recognized in profit or loss.

Financial liabilities are derecognized when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognized and the consideration paid is recognized in profit or loss.

Retirement Benefit Scheme

Payments to defined contribution retirement benefit plan, state managed retirement benefit schemes and the Mandatory Provident Fund Scheme are charged as an expense when employees have rendered service entitling them to the contributions.

Impairment on assets (other than goodwill)

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior periods. A reversal of an impairment loss is recognized as income immediately.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payment transactions

Equity-settled share-based payment transactions

The fair value of services received determined by reference to the fair value of the subscription rights for shares at a discount under the pre-IPO share subscription plan at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share-based compensation reserve).

At each balance sheet date, the Group revises its estimates of the number of subscription rights for shares that are expected to ultimately vest. The impact of the revision of the estimates during the vesting period, if any, is recognized in profit or loss, with a corresponding adjustment to share-based compensation reserve.

At the time when the subscription right for shares are exercised, the amount previously recognized in share-based compensation reserve will be transferred to share premium. When the subscription rights for shares are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognized in share-based compensation reserve will be transferred to accumulated profits.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized 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.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

(i) Impairment loss for inventories

The management of the Group reviews the aging of the inventories at each balance sheet date, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in production nor saleable in the market. The management estimates the net realizable value for such items based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by product basis at each balance sheet date and makes allowance for obsolete items. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at September 30, 2008, the carrying amount of inventories was US$250,623,000 (2007: US$112,375,000) (net of allowance for inventories of US$2,313,000 (2007: US$2,016,000)).

(ii) Estimated impairment of trade receivable

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at September 30, 2008, the carrying amount of trade receivable was US$137,664,000 (2007: US$67,150,000) (net of allowance for doubtful debts of US$314,000 (2007: US$229,000)).

(iii) Fair value of Call Options

Measurements of the fair value of the Call Options (as detailed in Note 19) require the use of variables and assumptions including (i) the underlying value of the Relevant Equity Interests, (ii) the profitability of the Company and the Relevant Companies and (iii) the share price of the Company. The carrying amount of the derivative financial instruments is US$59,744,000 (2007: nil). Details of the assumptions used are disclosed in Note 19.

(iv) Income taxes

As at September 30, 2008, a deferred tax asset of US$1,908,000 in relation to unused tax losses has been recognized in the Group's balance sheet. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognized in the consolidated income statement for the period in which such a reversal takes place.

5. REVENUE AND SEGMENTAL INFORMATION

Business segments

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

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

For the year ended September 30, 2008

	Manufacturing Business US$'000	Retail Business US$'000	Brand Licensee Business US$'000	Property Leasing and Management US$'000	Eliminations US$'000	Consolidated US$'000
REVENUE						
External sales	107,835	667,276	181,715	2,722	–	959,548
Inter-segment sales*	–	–	56,489	–	(56,489)	–
Total	107,835	667,276	238,204	2,722	(56,489)	959,548
RESULTS						
Segment results	12,761	34,648	48,459	(5,448)	–	90,420
Unallocated corporate income						4,073
Unallocated corporate expenses						(9,991)
Listing expenses						(6,631)
Share of results of associates	–	7,987	–	–	–	7,987
Share of results of jointly controlled entities	–	23,304	–	–	–	23,304
Fair value changes on derivative financial instruments						8,945
Finance costs						(17,643)
Profit before taxation						100,464
Income tax expense						(20,763)
Profit for the year						79,701

* Inter-segment sales are charged at prevailing market rates

5. REVENUE AND SEGMENTAL INFORMATION (Continued)

Business segments (Continued)
At September 30, 2008

	Manufacturing Business US$'000	Retail Business US$'000	Brand Licensee Business US$'000	Property Leasing and Management US$'000	Consolidated US$'000
ASSETS					
Segment assets	89,743	452,407	70,194	103,145	715,489
Interests in associates	–	20,357	–	–	20,357
Interests in jointly controlled entities	–	65,207	–	–	65,207
Loan to an associate					7,304
Loans to jointly controlled entities					75,604
Unallocated					253,445
					1,137,406
LIABILITIES					
Segment liabilities	13,281	81,028	42,619	3,498	140,426
Unallocated					334,671
					475,097

For the year ended September 30, 2008

OTHER INFORMATION

	Manufacturing Business US$'000	Retail Business US$'000	Brand Licensee Business US$'000	Property Leasing and Management US$'000	Consolidated US$'000
Capital additions	14,286	52,038	2,750	10,049	79,123
Depreciation of property, plant and equipment	3,099	12,981	1,115	551	17,746
Release of prepaid lease payments	26	–	28	203	257
(Gain) loss on disposal of property, plant and equipment	(2)	726	–	42	766
Impairment loss recognized on trade receivables	33	52	–	–	85
Allowance (reversal of allowance) for inventories	–	467	(170)	–	297

5. REVENUE AND SEGMENTAL INFORMATION (Continued)

Business segments (Continued)
For the year ended September 30, 2007

	Manufacturing Business US$'000	Retail Business US$'000	Brand Licensee Business US$'000	Property Leasing and Management US$'000	Eliminations US$'000	Consolidated US$'000
REVENUE						
External sales	67,053	355,244	133,187	419	–	555,903
Inter-segment sales*	–	–	13,603	–	(13,603)	–
Total	67,053	355,244	146,790	419	(13,603)	555,903
RESULTS						
Segment results	8,220	26,926	28,283	(990)	–	62,439
Unallocated corporate income						970
Unallocated corporate expenses						(4,438)
Share of results of associates	–	108	–	–	–	108
Share of results of jointly controlled entities	–	3,049	–	–	–	3,049
Finance costs						(3,710)
Profit before taxation						58,418
Income tax expense						(14,484)
Profit for the year						43,934

* Inter-segment sales are charged at prevailing market rates

5. REVENUE AND SEGMENTAL INFORMATION (Continued)

Business segments (Continued)

At September 30, 2007

	Manufacturing Business US$'000	Retail Business US$'000	Brand Licensee Business US$'000	Property Leasing and Management US$'000	Consolidated US$'000
ASSETS					
Segment assets	61,569	182,896	22,822	54,673	321,960
Interests in associates	–	10,922	–	–	10,922
Interests in jointly controlled entities	–	33,036	–	–	33,036
Loans to jointly controlled entities					39,915
Unallocated					148,097
					553,930
LIABILITIES					
Segment liabilities	6,239	64,076	10,929	67	81,311
Unallocated					285,230
					366,541

For the year ended September 30, 2007

OTHER INFORMATION

	Manufacturing Business US$'000	Retail Business US$'000	Brand Licensee Business US$'000	Property Leasing and Management US$'000	Consolidated US$'000
Capital additions	15,901	28,106	3,066	39,712	86,785
Depreciation of property, plant and equipment	2,754	7,567	1,323	57	11,701
Release of prepaid lease payments	25	–	26	–	51
Loss (gain) on disposal of property, plant and equipment	28	(3)	–	–	25
Reversal of impairment loss recognized on trade receivables	(24)	(135)	(176)	–	(335)
Reversal of allowance for inventories	–	(1,957)	(872)	–	(2,829)

Geographical segments

Over 90% of the Group's turnover and results were derived from the PRC. Accordingly, no geographical segment analysis is presented for the year.

As at the balance sheet dates, over 90% of the identifiable assets of the Group were located in the PRC. Accordingly, no analysis of the carrying amount of segment assets or additions to property, plant and equipment is presented.

6. FINANCE COSTS

	2008 US$'000	2007 US$'000
Interest on:		
Bank borrowings wholly repayable within five years	19,573	3,710
Less: amounts capitalized	(1,930)	–
Borrowing costs	17,643	3,710

7. INCOME TAX EXPENSE

	2008 US$'000	2007 US$'000
Taxation charge represents:		
Current tax:		
Hong Kong Profits Tax	783	617
PRC Enterprise Income Tax ("EIT")	19,780	12,683
Overseas income tax	1,589	1,184
Overprovision:		
PRC EIT	(2,525)	–
	19,627	14,484
Deferred taxation (Note 26)	1,136	–
	20,763	14,484

Hong Kong Profits Tax is calculated at 16.5% (2007: 17.5%) of the estimated assessable profits for the year.

Up to December 31, 2007, PRC EIT was calculated based on the statutory rate of 33% of the assessable profit for those subsidiaries established in the PRC, as determined in accordance with the relevant income tax rules and regulations in the PRC, except for the followings:

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

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

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

7. INCOME TAX EXPENSE (Continued)

On March 16, 2007, the PRC government promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of PRC. On December 6, 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations have changed the tax rate to 25% for the subsidiaries from January 1, 2008. According to the Circular of the State Council on the Implementation of Transitional Preferential Policies for Enterprises income Tax (Guofa 2007 No. 39), the tax rate of the entity that previously enjoyed the tax preferential treatment as set out in (iii) above is increased progressively to 25% over a five year period. The tax exemption and deduction from EIT entitled as set out in (i) above continue to be applicable until the end of the five year transitional period under the New Law. The preferential treatment set out in (ii) above continues on the implementation of the New Law.

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

The tax charge for the year can be reconciled to the profit before taxation per the consolidated income statement as follows:

	2008 US$'000	2007 US$'000
Profit before taxation	100,464	58,418
Tax at domestic tax rates applicable to profits of taxable entities in the countries concerned (note)	25,207	15,434
Tax effect of share of results of associates and jointly controlled entities	(7,860)	(1,006)
Tax effect of expenses not deductible for tax purposes	5,449	2,520
Tax effect of income not taxable for tax purposes	(2,466)	(555)
Effect of tax holidays granted to PRC subsidiaries	(1,117)	(2,740)
Effect of tax loss not recognized	–	831
Overprovision in respect of PRC EIT in prior years	(2,525)	–
Utilisation of tax losses previously not recognized	(27)	–
Tax effect of income subject to tax rates prior to the adoption of New Law	1,058	–
Deferred tax on undistributed earnings of PRC's subsidiaries, associates and jointly controlled entities derived since January 1, 2008	3,044	–
Tax charge for the year	20,763	14,484

note: As the Group operates in several different tax jurisdictions, separate reconciliations using the domestic tax rate in each individual tax jurisdiction have been aggregated.

8. PROFIT FOR THE YEAR

	2008 US$'000	2007 US$'000
Profit for the year has been arrived at after charging (crediting):		
Directors' emoluments (Note 9)	2,304	600
Other staff costs	98,405	64,496
Retirement benefit scheme contributions, excluding directors	4,002	1,007
Equity-settled share-based payment	338	–
Total staff costs	105,049	66,103
Auditor's remuneration	560	250
Depreciation of property, plant and equipment	17,746	11,701
Release of prepaid lease payment	257	51
Loss on disposal of property, plant and equipment	766	25
Research and development expenditure	1,867	1,675
Impairment loss (reversal of impairment loss) recognized on trade receivables	85	(335)
Allowance (reversal of allowance) for inventories	297	(2,829)
Costs of inventories	615,184	354,893
Interest income from banks	(1,643)	(970)
Interest income from associates	(124)	–
Interest income from jointly controlled entities	(2,306)	(97)
Cash discounts from suppliers	(14,079)	(7,723)
Sales of store displays and related items	(4,181)	(3,928)
Net exchange gain	(2,547)	(1,236)
Share of taxation of associates (included in share of results of associates)	2,053	119
Share of taxation of jointly controlled entities (included in share of results of jointly controlled entities)	7,000	878

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

The emoluments paid or payable to each of the twelve (2007: ten) directors were as follows:

(a) Directors' emoluments

Details of emoluments of individual directors are set out as follows:

For the year ended September 30, 2008

	Fees	Salaries and other allowances	Bonus	Retirement benefit scheme contributions	Equity-settled share-based payment	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Executive directors:						
Huang Tsung Jen	–	395	538	–	–	933
Lee Chung Wen	–	150	203	–	106	459
Huang Chun Hua	–	88	191	–	71	350
Chang Karen Yi-Fen	–	118	200	2	85	405
Lu Ning	–	3	–	–	106	109
Non-executive directors:						
Tsai David, Nai Fung	–	–	–	–	–	–
Ku Edward, Yu-Sun	–	–	–	–	–	–
Tsai Patty, Pei Chun	–	–	–	–	–	–
Independent non-executive directors:						
Chen Huan-Chung	11	–	–	–	–	11
Hu Sheng-Yih	11	–	–	–	–	11
Mak Kin Kwong	13	–	–	–	–	13
Cheng Ming Fun Paul	13	–	–	–	–	13
	48	754	1,132	2	368	2,304

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

(a) Directors' emoluments (Continued)

For the year ended September 30, 2007

	Fees US$'000	Salaries and other allowances US$'000	Bonus US$'000	Retirement benefit scheme contributions US$'000	Equity-settled share-based payment US$'000	Total US$'000
Executive directors:						
Huang Tsung Jen	–	303	232	–	–	535
Lee Chung Wen	–	–	–	–	–	–
Huang Chun Hua	–	59	5	1	–	65
Chang Karen Yi-Fen	–	–	–	–	–	–
Lu Ning	–	–	–	–	–	–
Non-executive directors:						
Tsai David, Nai Fung	–	–	–	–	–	–
Ku Edward, Yu-Sun	–	–	–	–	–	–
Tsai Patty, Pei Chun	–	–	–	–	–	–
Independent non-executive directors:						
Chen Huan-Chung	–	–	–	–	–	–
Hu Sheng-Yih	–	–	–	–	–	–
Mak Kin Kwong	–	–	–	–	–	–
Cheng Ming Fun Paul	–	–	–	–	–	–
	–	362	237	1	–	600

(b) Employees' emoluments

The five highest paid individuals of the Group for the year ended September 30, 2008 included three (2007: one) directors of the Company, details of whose emoluments are set out above. The emoluments of the remaining two (2007: four) individuals are as follows:

	2008 US$'000	2007 US$'000
Salaries and other allowances	325	460
Bonus	773	728
	1,098	1,188

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

(b) Employees' emoluments (Continued)

Their emoluments were within the following bands:

	2008 Number of employees	2007 Number of employees
HK$1,000,001 to HK$1,500,000	–	2
HK$1,500,001 to HK$2,000,000	–	1
HK$3,000,001 to HK$3,500,000	–	1
HK$3,500,001 to HK$4,000,000	1	–
HK$5,000,001 to HK$5,500,000	1	–
	2	4

During both years, no emoluments were paid by the Group to any of the directors or the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors waived any emoluments during the year.

10. EARNINGS PER SHARE

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

	2008 US$'000	2007 US$'000
Earnings:		
Profit for the year attributable to equity holders of the Company for the purposes of basic and diluted earnings per share	70,024	31,927

	2008	2007
Number of shares:		
Number of ordinary shares for the purpose of basic earnings per share	2,453,445,393	1,318,337,062
Effect of dilutive potential ordinary shares: Pre-IPO Share Subscription Plan (Note 34)	44,472,710	N/A
Number of ordinary shares for the purpose of diluted earnings per share	2,497,918,103	N/A

The weighted average number of shares for the year ended September 30, 2008 and 2007 have been retrospectively adjusted for the effect of the Group Reorganization and the capitalization of share premium in May 2008 as detailed in the Prospectus.

11. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings US$'000	Office and shopping mall buildings US$'000	Factory buildings US$'000	Plant and machinery US$'000	Leasehold improvements US$'000	Furniture, fixture and equipment US$'000	Motor vehicles US$'000	Construction in progress US$'000	Total US$'000
COST									
At October 1, 2006	-	4,005	17,380	10,534	16,248	7,928	975	542	57,612
Exchange realignment	253	655	625	576	785	516	66	654	4,130
Additions	7,767	19,611	-	2,922	9,980	7,960	728	19,227	68,195
Acquisition of business	-	-	-	-	2,346	-	-	-	2,346
Transfer	-	-	11,382	-	-	-	-	(11,382)	-
Disposals	-	-	-	(17)	(2,204)	(148)	(67)	-	(2,436)
At September 30, 2007	8,020	24,271	29,387	14,015	27,155	16,256	1,702	9,041	129,847
Exchange realignment	773	2,824	431	1,440	2,787	1,328	135	1,095	10,813
Additions	-	10,383	-	2,206	27,784	7,519	583	30,648	79,123
Transfer	-	-	10,809	-	-	-	-	(10,809)	-
Disposals	-	-	-	-	(2,698)	(1,098)	(158)	-	(3,954)
At September 30, 2008	8,793	37,478	40,627	17,661	55,028	24,005	2,262	29,975	215,829
DEPRECIATION									
At October 1, 2006	-	344	2,193	1,426	10,143	2,741	389	-	17,236
Exchange realignment	4	8	56	87	481	69	22	-	727
Provided for the year	110	442	875	1,081	7,136	1,841	216	-	11,701
Eliminated on disposals	-	-	-	(3)	(1,738)	(81)	(51)	-	(1,873)
At September 30, 2007	114	794	3,124	2,591	16,022	4,570	576	-	27,791
Exchange realignment	18	187	334	396	1,554	341	67	-	2,897
Provided for the year	186	1,030	1,346	971	11,756	2,121	336	-	17,746
Eliminated on disposals	-	-	-	-	(1,508)	(584)	(77)	-	(2,169)
At September 30, 2008	318	2,011	4,804	3,958	27,824	6,448	902	-	46,265
CARRYING VALUE									
At September 30, 2008	8,475	35,467	35,823	13,703	27,204	17,557	1,360	29,975	169,564
At September 30, 2007	7,906	23,477	26,263	11,424	11,133	11,686	1,126	9,041	102,056

In the opinion of the directors, the land and building element of certain of the Group's properties in the PRC cannot be allocated reliably. Accordingly they are presented on a combined basis as land and buildings as above.

All buildings, office and shopping mall buildings and factory buildings, are situated on land with a medium-term land use right in the PRC. As at September 30, 2008, buildings with an aggregate carrying value of approximately US$31,282,000 (2007: US$19,728,000) were situated on land for which formal title has not been granted.

11. PROPERTY, PLANT AND EQUIPMENT (Continued)

The above items of property, plant and equipment are depreciated at the following rates per annum:

Leasehold land and buildings/office and shopping mall buildings/factory buildings	Over 20 years to 50 years, or shorter of the lease terms of the relevant land, where appropriate (straight line method)
Plant and machinery	5% – 15% (straight line method)
Leasehold improvements	10% – 50% (reducing balance method or shorter of the lease term)
Furniture, fixture and equipment	20% – 30% (reducing balance method)
Motor vehicles	20% – 30% (reducing balance method)

12. DEPOSIT FOR ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT

Details of the related capital commitment are set out in Note 32.

13. PREPAID LEASE PAYMENTS

	2008 US$'000	2007 US$'000
The carrying amount of the Group's prepaid lease payments are analyzed as follows:		
Current assets	482	125
Non-current assets	15,772	5,169
	16,254	5,294

The carrying amount represents prepaid lease payments for medium-term land use rights in the PRC.

The Group had paid the full consideration for its land use rights in the PRC. As at September 30, 2008, the Group had not yet obtained the title of land use rights with an aggregate carrying amount of US$13,821,000 (2007: US$2,923,000). The directors are of the opinions that the risks and rewards of using these assets have been transferred to the Group and the absence of formal title to these land rights does not impair the value of the relevant properties to the Group.

14. GOODWILL

	US$'000
COST	
Arising on acquisition of business in 2007 and balance at September 30, 2007 and September 30, 2008	2,101

For the purpose of impairment testing, goodwill has been allocated to a cash generating unit, being a subsidiary of the Group engaged in retailing of sportswear in Yunnan, PRC ("CGU").

During the year ended September 30, 2008, management of the Group determined that the CGU containing goodwill had not suffered any impairment. The basis of the recoverable amount of the above CGU and the major underlying assumptions are summarised below:

The recoverable amount of the CGU has been determined based on value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 5 year period and a discount rate of 15%. The cash flows beyond the five year period are extrapolated using a steady growth rate of 4%. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Other key assumption for the value in use calculation relate to the estimation of cash inflows/outflows which included budgeted sales and gross margin, such estimation is based on the units past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the recoverable amount of the CGU to fall below its carrying amount.

15. INTERESTS IN ASSOCIATES/LOAN TO AN ASSOCIATE

	2008 US$'000	2007 US$'000
Cost of unlisted investments in associates (notes (i) and (ii))	10,898	10,556
Share of post-acquisition profits, net of dividends received	8,153	166
Share of post-acquisition reserves	1,306	200
	20,357	10,922
Loan to an associate	7,304	–

15. INTERESTS IN ASSOCIATES/LOAN TO AN ASSOCIATE (Continued)

notes:

(i) Included in cost of investments in associates is goodwill of approximately US$3,003,000 and the movements are as follows:

	US$'000
COST	
Balance at October 1, 2006, September 30, 2007 and 2008	3,003

(ii) Pursuant to the joint venture agreement, the initial investment made by the Group for an associate is subject to a price adjustment mechanism which is determined by the financial performance achieved by the associate during the specified profit evaluation period of 2 years. If the financial performance of the associate during the specified profit evaluation period does not meet certain benchmarks, the other joint venture partner of that associate will have to compensate the Group for the price adjustment either by cash or by transferring a portion of its equity interest in such associate to the Group. If the financial performance of the associate during such profit evaluation period exceeds certain benchmarks, then the Group is required to make additional cash contribution to the associate. As at the balance sheet date, the estimated compensation and/or contributions, and fair value, in respect of the price adjustment mechanism are not material.

The loan to an associate is secured by the equity interests of that associate held by its majority shareholder, interest bearing at the quoted lending rate of People's Bank of China ("POB") and has no fixed terms of repayment. The loan is not expected to be repaid within one year and is classified as non-current assets.

Details of the Group's associates at September 30, 2008 and 2007 are set out in Note 40.

Summarized financial information in respect of the Group's associates is set out below:

	2008 US$'000	2007 US$'000
Total assets	139,562	47,924
Total liabilities	(89,630)	(27,414)
Net assets	49,932	20,510
Group's share of net assets of associates	17,354	7,919
Revenue	307,671	97,934
Profit for the year	25,529	364
Group's share of results of associates for the year	7,987	108

16. INTERESTS IN JOINTLY CONTROLLED ENTITIES/LOANS TO JOINTLY CONTROLLED ENTITIES

	2008 US$'000	2007 US$'000
Cost of unlisted investments in jointly controlled entities (note)	34,116	29,717
Share of post-acquisition profits, net of dividends received	26,353	3,049
Share of post-acquisition reserves	4,738	270
	65,207	33,036
Loans to jointly controlled entities	75,604	39,915

note:

Pursuant to the joint venture agreements, the initial investment made by the Group for certain jointly controlled entities are subject to a price adjustment mechanism which is determined by the financial performance achieved by the jointly controlled entities during the specified profit evaluation periods, which range from 2 to 3 years. If the financial performance of jointly controlled entities during the specified profit evaluation period does not meet certain benchmarks, the other joint venture partner of that jointly controlled entity will have to compensate the Group for the price adjustment either by cash or by transferring a portion of its equity interest in such jointly controlled entity to the Group. If the financial performance of the jointly controlled entities during such profit evaluation period exceeds certain benchmarks, then the Group is required to make additional cash contribution to those jointly controlled entities. As at the balance sheet date, the estimated compensation and/or contributions, and fair value, in respect of the price adjustment mechanism are not material.

The loans to jointly controlled entities are secured by the equity interests in the relevant jointly controlled entities held by the other venture partners, interest bearing at the quoted lending rate of POB and have no fixed terms of repayment. The loans are not expected to be repaid within one year and are classified as non-current assets.

Details of the Group's jointly controlled entities at September 30, 2008 and 2007 are set out in Note 41.

16. INTERESTS IN JOINTLY CONTROLLED ENTITIES/LOANS TO JOINTLY CONTROLLED ENTITIES (Continued)

Summarized financial information in respect of the Group's interests in jointly controlled entities which are accounted for using the equity method is set out below:

	2008 US$'000	2007 US$'000
Non current assets	27,838	6,706
Current assets	185,859	96,665
Current liabilities	(148,490)	(70,335)
Group's share of net assets of jointly controlled entities	65,207	33,036
Revenue	353,293	48,322
Expense	(329,989)	(45,273)
Group's share of results of jointly controlled entities for the year	23,304	3,049

17. INVENTORIES

	2008 US$'000	2007 US$'000
Raw materials	4,881	2,292
Work in progress	7,300	4,098
Finished goods	238,442	105,985
	250,623	112,375

18. TRADE AND OTHER RECEIVABLES

	2008 US$'000	2007 US$'000
Trade receivables	137,664	67,150
Deposits, prepayments and receivables	79,821	31,009
	217,485	98,159

Included in the deposits, prepayments and other receivables are deposits paid to certain suppliers of approximately US$28,374,000 (2007: US$12,623,000), prepayments of various natures of approximately US$28,643,000 (2007: US$11,990,000) and value-added tax recoverable of approximately US$11,301,000 (2007: US$2,878,000).

The Group generally allows an average credit period of 30 days to 90 days to its trade customers. The aged analysis of the Group's trade receivables is as follows:

	2008 US$'000	2007 US$'000
0 – 30 days	111,238	56,974
31 – 90 days	25,283	9,172
Over 90 days	1,143	1,004
	137,664	67,150

Included in trade receivables are trade receivables with related companies of approximately US$9,746,000 (2007: nil), details of the relevant transactions are set out in Note 36.

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of US$1,143,000 (2007: US$1,004,000) which were past due at the reporting date and for which the Group has not provided for impairment loss because management is of the opinion the fundamental credit quality of these customers has not deteriorated. The Group does not hold any collateral over these balances. The average age of these receivables is approximately 100 days (2007: approximately 100 days).

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer. Limits attributed to customers are reviewed periodically. Majority of the trade receivables that are neither past due nor impaired have no default payment history.

Movement in the allowance for doubtful debt

	2008 US$'000	2007 US$'000
At beginning of the year	229	564
Impairment loss recognized	85	–
Reversal during the year	–	(335)
At the end of the year	314	229

19. DERIVATIVE FINANCIAL INSTRUMENTS

	2008 US$'000	2007 US$'000
Financial assets:		
Call options for acquisition of additional interests in subsidiaries, associates and jointly controlled entities	59,744	–

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

The Call Options are exercisable five years commencing from the expiry of the first six months after dealing in the shares of the Company on the Stock Exchange commenced. Each of the Relevant Partners has agreed not to transfer or dispose of the Relevant Equity Interests during the Call Options exercisable period without the Group's prior written consent.

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

The Option Premium was determined with reference to 15% of the agreed estimated consideration for the acquisition of the Relevant Equity Interests on the date of the Call Option agreements. The Option Premium was settled by the issue of shares in the Company and the number of shares issued was determined with reference to the offering price upon the global offering of the Company's shares on the Stock Exchange. Pursuant to the supplementary agreements entered into by certain of the Relevant Partners, some of these partners agreed to accept cash in lieu of the shares for part or, in some cases, all of the Option Premium that the Company had agreed with each of them. The Option Premium paid will not be refundable if the Group does not exercise the Call Options before expiry of the exercisable period.

In June, 2008, the Company settled the Option Premium by the issue of a total of 85,702,000 shares in the Company and cash payments of US$17,277,000. The total fair value of the Call Options at initial recognition was the settlement amount of US$50,799,000 and has been accounted for as the cost of the Call Options on the consolidated balance sheet.

19. DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

The value of each of the Call Options at September 30, 2008 were valued by Savills Valuation and Professional Services Limited, an independent valuer using the Binomial Model. The key inputs into the model include estimated earnings of the Relevant Companies and expected price earning ratio of the Company at the time of exercise of the options and further details are set out below.

	At September 30, 2008
Derivative assets – Call Options:	
Expected price earning ratio – the Company	5
Expected volatility – Company	48%
Expected volatility – the Relevant Companies	31%
Risk free rate	3.53%
Exercisable period	5 years
Expected dividend yield	Nil

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

In addition to the above inputs, the estimated earnings of the Relevant Companies are determined based on cash flow projections prepared from the financial budgets approved by management of the Relevant Companies covering a 5 year period and are then discounted to present value using a discount rate of 15%. The cash flows beyond the five year period are extrapolated using a steady growth rate of 2%. This growth rate of 2% applied in the calculation is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry.

The change in fair value of approximately US$8,945,000 have been credited to the consolidated income statements for the year ended September 30, 2008.

20. AMOUNTS DUE FROM RELATED PARTIES

Particulars of the amounts due from related parties are as follows:

				Maximum amount outstanding for year ended September 30,	
	note	2008 US$'000	2007 US$'000	2008 US$'000	2007 US$'000
Minority shareholders of subsidiaries	(i)	1,801	2,966	2,966	2,966
Jointly controlled entities	(i)	–	4,775	4,775	4,775
Shareholders of associates	(i)	–	3,379	3,379	3,379
Shareholders of jointly controlled entities	(i)	–	9,496	9,496	9,496
		1,801	20,616		

note:

(i) The amounts are unsecured, interest-free and repayable on demand.

21. PLEDGED BANK DEPOSITS

These deposits are pledged to banks to secure banking facilities granted to the Group. The pledged bank deposits carried interests ranging from 5.73% to 5.99% per annum (2007: nil) and will be released upon the settlement of the relevant bank borrowings.

22. BANK BALANCES AND CASH/BANK OVERDRAFTS

Bank balances and cash

The balance comprises bank balances and short-term deposits placed in banks and financial institutions that are interest-bearing at market interest rates. All deposits are with maturity of three months or less.

During the year, the bank deposits carried fixed interest rates ranging from 0.25% to 4.75% (2007: 0.72% to 3.87%) per annum.

The Group's bank balances and cash that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	2008 US$'000	2007 US$'000
United States dollars	103,240	14,555
Hong Kong dollars	2,345	182
	105,585	14,737

Bank overdrafts

As at September 30, 2007, bank overdrafts carry interest at market rates which range from 5.08% to 7.57%.

23. TRADE AND OTHER PAYABLES

	2008 US$'000	2007 US$'000
Trade payables	92,498	39,526
Bills payables	518	41,785
Other payables	58,259	33,147
	151,275	114,458

Included in other payables are accruals of various natures of approximately US$27,993,000 (2007: US$20,571,000), receipts in advance from customers of approximately US$10,594,000 (2007: US$5,515,000) and royalty payable of approximately US$7,494,000 (2007: US$4,297,000).

The aged analysis of the Group's trade and bills payables is as follows:

	2008 US$'000	2007 US$'000
0 – 30 days	82,005	55,534
31 – 90 days	9,166	19,607
Over 90 days	1,845	6,170
	93,016	81,311

The average credit period for payment of purchases of goods is 90 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

Included in trade payables are trade payables with related companies of approximately US$3,400,000 (2007: nil), details of the relevant transactions are set out in Note 36.

24. AMOUNTS DUE TO RELATED PARTIES

Particulars of the amounts due to related parties:

	notes	2008 US$'000	2007 US$'000
Minority shareholders of subsidiaries	(i)	1,919	6,158
Yue Yuen	(i)	–	25,981
Subsidiaries of Yue Yuen	(i)	–	78,794
Associates of Yue Yuen	(ii)	–	1,449
		1,919	112,382

notes:

(i) These represent temporary fund transfer, which are non-trade in nature. They are unsecured, interest-free and repayable on demand.

(ii) These represent trading balances aged within 30 days and were settled according to the Group's normal commercial terms.

25. BANK BORROWINGS

	2008 US$'000	2007 US$'000
The bank borrowings are repayable:		
Within one year	306,288	99,975
In more than one year, but not exceeding two years	5,843	25,273
	312,131	125,248
Less: amount included in current liabilities	(306,288)	(99,975)
Amount due after one year	5,843	25,273
Analyzed as:		
Secured	1,627	–
Unsecured	310,504	125,248
	312,131	125,248

The Group's bank borrowings are interest-bearing as follow:

	2008 US$'000	2007 US$'000
Fixed rate borrowings	11,852	67,042
Variable rate borrowings	300,279	58,206
	312,131	125,248

The Group's variable rate borrowings carry interest at a margin over HIBOR, LIBOR or prevailing rate quoted by the POB. Interest is repriced every six to twelve months.

The range of effective interest rates (which are also equal to contracted interest rates) on the Group's bank borrowings are as follows:

	2008	2007
Effective interest rate:		
Fixed rate borrowings	5.99% to 6.57%	5.58% to 7.65%
Variable rate borrowings	6.03% to 7.47%	5.58% to 7.87%

25. BANK BORROWINGS (Continued)

The Group's bank borrowings that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	2008 US$'000	2007 US$'000
United States dollars	1,627	7,180

26. DEFERRED TAXATION

The following are the major deferred tax liabilities and (assets) recognized and movements thereon during current or prior years:

	Tax losses US$'000	Undistributed earnings of PRC entities US$'000	Total US$'000
At October 1, 2006 and September 30, 2007	–	–	–
(Credit) charge to the consolidated income statement	(1,908)	3,044	1,136
At September 30, 2008	(1,908)	3,044	1,136

The following is the analysis of the deferred tax balances for financial reporting purposes:

	2008 US$'000	2007 US$'000
Deferred tax assets	(1,908)	–
Deferred tax liabilities	3,044	–
	1,136	–

At the balance sheet date, the Group had unused tax losses of US$10.1 million (2007: US$2.7 million) available for offset against future profits. A deferred tax asset has been recognized in respect of US$7.6 million (2007: nil) of such losses. No deferred tax asset has been recognized in respect of the remaining unused tax loss of US$2.5 million (2007: US$2.7 million) due to the unpredictability of future profit streams. Included in unrecognized tax losses are losses of US$2.5 million (2007: US$2.7 million) that will expire in 2012. Other losses may be carried forward indefinitely.

26. DEFERRED TAXATION (Continued)

Deferred taxation has been provided in full in respect of the undistributed earnings of the Group's PRC associates and jointly controlled entities arising since January 1, 2008. In respect of the undistributed earnings of the Group's PRC subsidiaries for the same period, because the Group is in a position to control the quantum and timing of the distribution thereof, deferred taxation is only provided to the extent that such earnings are estimated to be distributable in the foreseeable future.

At the balance sheet date, the aggregate amount of undistributed earnings of the Group's PRC subsidiaries in respect of which the Group has not provided for dividend withholding tax was approximately US$59.9 million (2007: nil).

27. SHARE CAPITAL AND PAID UP CAPITAL

	notes	Number of shares	Nominal value HK$'000
Ordinary shares of HK$0.01 each			
Authorized:			
At October 1, 2007		–	–
Upon incorporation	(i)	10,000,000	100
Increase in authorized share capital	(ii)	29,990,000,000	299,900
At September 30, 2008		30,000,000,000	300,000
Issued and fully paid:			
Allotted and issued on incorporation	(i)	1	–
Issue of shares upon the Group Reorganization	(iii)	99,999	1
Issue of shares on capitalization of the share premium account	(iv)	2,631,544,000	26,315
Issue of shares relating to acquisitions	(v)	94,978,000	950
Issue of shares under global offering	(vi)	823,378,000	8,234
Issue on exercise of the over-allotment option	(vi)	17,559,000	176
At September 30, 2008		3,567,559,000	35,676
		Equivalent to US$'000	4,575

27. SHARE CAPITAL AND PAID UP CAPITAL (Continued)

notes:

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

(ii) Pursuant to the resolutions passed by the sole shareholder of the Company on May 14, 2008, the authorized share capital of the Company was increased from HK$100,000 to HK$300,000,000 by the creation of additional 29,990,000,000 ordinary shares of HK$0.01 each.

(iii) On May 23, 2008, the Company issued 99,999 ordinary shares of HK$0.01 each pursuant to the Group Reorganization. 75,492 ordinary shares were issued to Yue Yuen in exchange for the equity interests in the subsidiaries which were transferred to the Company. 24,507 ordinary shares were issued to minority shareholders for acquiring certain minority interests in subsidiaries at an aggregate issue price of US$252,249,000, based on the initial offering price of HK$3.05 per share ("IPO Price") of the Company's shares, and after taking into account the additional 644,896,493 shares issued under the capitalization issue described in (iv) below

(iv) On June 5, 2008, the Company allotted and issued 2,631,544,000 ordinary shares of HK$0.01 each credited as fully paid to the shareholders by the capitalization of an amount of HK$26,315,440 in the share premium account of the Company at par of which 644,896,493 ordinary shares of HK$0.01 each were issued to the minority shareholders mentioned above.

(v) On June 5, 2008, the Company issued 85,702,000 ordinary shares and 9,276,000 ordinary shares of HK$0.01 each at IPO Price to settle the financial liabilities related to the Option Premium and the consideration payable for the acquisition of the additional interest in a subsidiary respectively.

(vi) On June 6, 2008, the Company issued a total of 823,378,000 ordinary shares of HK$0.01 each at the IPO Price by means of a global offering. On July 3, 2008, the Company issued additional 17,559,000 ordinary shares of HK$0.01 each at the IPO Price by means of full exercise of the over-allotment option as set out in the Prospectus.

All the shares issued during the period from November 14, 2007 (date of incorporation) to September 30, 2008 ranked pari passu in all respects with the then existing shares.

Because the Group Reorganization was only completed on June 5, 2008, the balance of share capital at September 30, 2007 represents the aggregate of the share capital and paid up capital of the subsidiaries comprising the Group held directly by Yue Yuen at that date.

28. BALANCE SHEET OF THE COMPANY

	2008 US$'000
Total assets	510,173
Total liabilities	2,970
	507,203
Capital and reserves	
Share capital	4,575
Reserves (note a)	502,628
	507,203

notes:

(a) Reserves

	Share premium US$'000	Contributed surplus US$'000 (note b)	Share-based compensation reserve US$'000	Accumulated losses US$'000	Total US$'000
At November 14, 2007 (date of incorporation)	–	–	–	–	–
Loss for the period and total recognized expense for the period	–	–	–	(13,077)	(13,077)
Arising from Group Reorganization	–	166,010	–	–	166,010
Recognition of equity-settled share-based payment	–	–	706	–	706
Issue of new shares (Notes 27(v) and 27(vi))	364,870	–	–	–	364,870
Issue of shares by capitalization of share premium account (Note 27(iv))	(3,374)	–	–	–	(3,374)
Transaction cost attributable to issue of new shares	(12,507)	–	–	–	(12,507)
At September 30, 2008	348,989	166,010	706	(13,077)	502,628

(b) The contributed surplus of the Company represents the difference between the aggregate net assets of the subsidiaries acquired by the Company under the Group Reorganization and the nominal amount of the Company's shares issued for the acquisition.

29. ACQUISITION OF BUSINESS

On January 1, 2007, the Group acquired the business and the relevant assets and liabilities of a retailing business in Yunnan, PRC, for a consideration of RMB56,100,000 (equivalent to approximately US$7,184,000) from a minority shareholder. This acquisition was accounted for using the purchase method.

The carrying amounts and fair value of the net assets acquired in the transaction and the goodwill arising therefrom are as follows:

	US$'000 (note)
Net assets acquired:	
Property, plant and equipment	2,346
Inventories	7,723
Trade and other receivables	8,656
Bank balances and cash	3,102
Trade and others payables	(11,861)
Minority interests	(4,883)
	5,083
Goodwill	2,101
Total consideration	7,184
Satisfied by:	
Cash	7,184
Net cash outflow arising on acquisition:	
Cash consideration paid	(7,184)
Bank balances and cash acquired	3,102
	(4,082)

note: the fair value of the net assets approximates to their carry amounts.

The acquired business contributed US$1.9 million to the Group's profit for the period between the date of acquisition and September 30, 2007.

If the acquisition had been completed on October 1, 2006, total group revenue and profit after taxation of the Group for the year ended September 30, 2007 would have been US$562 million, and US$45 million, respectively. This pro forma information is for illustration purposes only and is not necessarily an indication of the revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on October 1, 2006, nor is it intended to be a projection of future results.

30. PLEDGE OF ASSETS

At the balance sheet date, the Group pledged bank deposits of US$2,337,000 (2007: Nil) to banks to secure short-term bank borrowings granted to the Group.

31. OPERATING LEASE

The Group as lessee

The Group made the following lease payments during the year as follow:

	2008 US$'000	2007 US$'000
Operating lease rentals in respect of:		
Minimum lease payments:		
– street level stores	19,802	12,333
– shopping mall stores	15,263	1,553
– other properties	4,189	1,944
	39,254	15,830
Contingent rentals	72,571	41,964
	111,825	57,794

At the balance sheet dates, the Group had commitments for future minimum lease payments for retail shops and other properties under non-cancellable operating leases which fall due as follows:

	2008 US$'000	2007 US$'000
Within one year	46,269	15,073
In the second to fifth year inclusive	92,902	36,793
Over five years	31,378	9,294
	170,549	61,160

31. OPERATING LEASE (Continued)

The above lease commitments represent basic rents only and do not include contingent rents payable in respect of certain retail shops leased by the Group. In general, these contingent rents are calculated with reference to the relevant retail shops' turnover using pre-determined formulae. It is not possible to estimate in advance the amount of such contingent rent payable.

Leases are negotiated for lease terms of 2 to 5 years.

The Group as lessor

At the balance sheet dates, the Group had contracted with tenants for the following future minimum lease receipts in respect of shopping mall counter areas rented out:

	2008 US$'000	2007 US$'000
Within one year	581	691
In the second to fifth year inclusive	2,361	–
Over five years	6,964	–
	9,906	691

In addition to the basic rental receipts as disclosed above, the lease agreements with the tenants also include provision for the payment of contingent rent to the Group. In general, these contingent rents are calculated with reference to the turnover generated by the tenants operating in the Group's retailing complex using pre-determined formulae. It is not possible to estimate in advance the amount of such contingent rent receivable. Rental income received by the Group during the year amounted to US$2,722,000 (2007: US$419,000), included in which was rental income arising from contingent lease contracts of US$2,031,000 (2007: US$419,000).

32. CAPITAL COMMITMENTS

	2008 US$'000	2007 US$'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of:		
– acquisition of property, plant and equipment	21,529	8,206
Other commitments contracted for but not provided in the consolidated financial statements in respect of:		
– capital investment in associates	4,850	5,414
– capital investment in jointly controlled entities	1,519	6,874
	27,898	20,494

Save as disclosed above and in Notes 15 and 16, the Group has no other commitments to the capital investment in associates and jointly controlled entities.

33. CONTINGENT LIABILITIES

At the balance sheet date, the Group had contingent liabilities as follow:

	2008 US$'000	2007 US$'000
Guarantee given to banks in respect of banking facilities granted to		
(i) jointly controlled entities		
– amount guaranteed	44,697	–
– amount utilized	39,323	–
(ii) associates		
– amount guaranteed	7,300	–
– amount utilized	7,300	–

34. SHARE-BASED PAYMENT TRANSACTIONS

The Company has the following incentives plans to motivate and reward its directors and employees:

(I) Pre-IPO Share Subscription Plan

The Company's pre-IPO share subscription plan (the "Plan") was adopted pursuant to a resolution passed on May 14, 2008. Pursuant to the Plan under which invitations were made to and accepted by, eligible persons to subscribe for shares in the Company at HK$2.14 per share which represents a discount of 30% below the IPO Price (the "Plan Shares"), for the primary purpose to recognize contributions of eligible persons, to seek to retain them for the continued operation and development of the Group and to attract suitable personnel for the Group's further development. The Plan is an one-off and close-end scheme.

	Invitation date	Number of Plan Shares (5 year plan) (note i)	Number of Plan Shares (10 year plan) (note ii)	Total
Directors	May 23, 2008	36,920,000	25,028,000	61,948,000
Employees	May 23, 2008	34,081,000	28,223,000	62,304,000
		71,001,000	53,251,000	124,252,000

notes:

(i) 20% of the Plan Shares shall be subscribed within 5-year period after each anniversary of the date of invitation.

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

34. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

(I) Pre-IPO Share Subscription Plan (Continued)

At September 30, 2008, no shares have been subscribed under the Plan.

The fair value of the subscription right for the Plan Shares on the date of invitation was calculated using the Binomial Model (the "Model") and the amount that was charged to the consolidated income statement as share-based payment expense for the year ended September 30, 2008 is approximately US$706,000 (2007: Nil). The inputs into the Model for the purpose of the estimation are as follows:

	5 year Plan	10 year Plan
Weighted average share price	HK$3.05	HK$3.05
Subscription price	HK$2.14	HK$2.14
Life of subscription right	5 years	10 years
Expected volatility	48%	48%
Expected dividend yield	0% to 2%	0% to 2%
Risk free rate	1.22% to 2.92%	1.22% to 2.92%
Fair value of subscription right per share	HK$0.99	HK$0.98

The Model is one of the commonly used models to estimate the fair value of the subscription right of the Plan Shares and which involves assumptions and variables based on the directors' best estimates. Such fair value varies when different assumptions, which are necessarily subjective, and variables are used.

The dividend yield are based on management's best estimate taking into account the Group's future plans and prospects. Expected volatility was determined with reference to the historical volatility of the share prices of comparable companies on the Stock Exchange as the Company's shares have been listed on the Stock Exchange with effect from June 6, 2008.

(II) Share Option Scheme

The Company's share option scheme (the "Scheme"), was adopted pursuant to a resolution passed on May 14, 2008 for the primary purpose to attract and retain personnel, to provide incentives to eligible participants to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole, and will expire on May 13, 2018. Under the Scheme, the Board of Directors of the Company may grant options to eligible participants, including inter alia, directors and employees of the Group, to subscribe for shares in the Company.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK$5 million must be approved in advance by the Company's shareholders.

Options may be exercised at any time from the minimum period for which an option must be held before it can be exercised determined by the Board of Directors commencing from the date of grant of the share option to the 10th anniversary of the date of grant. The exercise price is determined by the Board of Directors of the Company, and will not be less than the highest of (i) the closing price of the Company's shares on the date of grant, (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

At September 30, 2008, no options were granted, exercised or lapse under the Scheme.

35. RETIREMENT BENEFIT PLANS

The employees employed in the PRC are members of the state-managed retirement benefit schemes operated by the PRC government. The PRC subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefit schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefit schemes is to make the required contributions under the schemes.

The Group also operates a Mandatory Provident Fund Scheme for all its qualifying employees in Hong Kong. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of relevant payroll costs to the scheme, which contribution is matched by employees.

At the balance sheet dates, the Group had no significant obligation apart from the contribution as stated above.

36. RELATED PARTY DISCLOSURES

(I) Transactions and trade balances

The Group had the following related party transactions and balances:

Relationship	Nature of transactions/balances	2008 US$'000	2007 US$'000
Substantial shareholder of the Company and its affiliates other than the Group:			
Subsidiaries of Yue Yuen	Purchase of sportswear products	1,095	2,855
	Purchase of property, plant and equipment	29	179
	Purchase of raw materials	–	15
	Sales of moulds	–	123
	Sales of plant and machinery	–	3
Associates of Yue Yuen	Purchase of sportswear products	21,664	5,034
	Trade payables at September 30	2,934	–
Jointly controlled entities of Yue Yuen	Purchase of sportswear products	2,921	3,297
	Trade payables at September 30	414	–
Substantial shareholder of Yue Yuen	Purchase of sportswear products	194	–
	Trade payables at September 30	52	–

36. RELATED PARTY DISCLOSURES (Continued)

(I) Transactions and trade balances (Continued)

Relationship	Nature of transactions/balances	2008 US$'000	2007 US$'000
Subsidiaries' minority shareholders or their affiliates:			
Yunnan Orientalsport (Note 29)	Acquisition of a retail business	–	7,184
Huang Tsung Jen	Consultancy fee paid	–	1,007
	Acquisition of additional interest in subsidiaries	–	65
Jollyard Investment Limited	Acquisition of additional interest in a subsidiary	–	4,612
Associates	Sales of sportswear products	10,832	–
	Management fee received	125	–
	Interest income	124	–
	Trade receivables at September 30	3,941	–
Jointly controlled entities	Sales of sportswear products	11,589	–
	Purchase of shoes	–	147
	Interest income	2,306	97
	Management fee received	171	–
	Trade receivables at September 30	5,805	–

(II) Non-trade balances

Details of the Group's non-trade balances with related parties are set out on the consolidated balance sheets and in Notes 20 and 24.

36. RELATED PARTY DISCLOSURES (Continued)

(III) Guarantees

The Group's bank borrowings were secured by guarantees given by:

	note	2008 US$'000	2007 US$'000
Yue Yuen and minority shareholders of subsidiaries on a joint and several basis	(i)	10,882	79,308
Yue Yuen	(i)	–	51,292
Minority shareholders of subsidiaries on a joint and several basis		687	–
		11,569	130,600

note:

(i) These guarantees were released during the year ended September 30, 2008 upon the listing of the Company's shares on the Stock Exchange, except for guarantees of US$10,882,000 which were released in December 2008.

In addition to the above, details of the Group's guarantees to associates and jointly controlled entities are set out in Note 33.

(IV) Compensation of key management personnel

	2008 US$'000	2007 US$'000
Short term benefits	3,504	1,931
Post employment benefits	2	2
Equity-settled share-based payments	368	–
	3,874	1,933

The remuneration of directors and key executives is determined having regard to the performance of the individuals.

37. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that the entities in the Group will be able to continue as a going concern while maximizing the return to shareholders through the optimization of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debts, which include the borrowings disclosed in Note 25, and equity attributable to equity holders of the Company, comprising issued share capital, various reserves and accumulated profits.

Management reviews the capital structure regularly. As part of this review, the directors of the Company assess the annual budget prepared by the accounting and treasury department and consider and evaluate the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will then balance its capital structure through the payment of dividends, new shares issues as well as the issue of new debt or the redemption of the existing debt.

38. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2008 US$'000	2007 US$'000
Financial assets		
Loans and receivables		
(including cash and cash equivalents)	473,332	222,135
Derivative financial instruments	59,744	–
Financial liabilities		
Amortized cost	418,607	330,470

(b) Financial risk management objectives

The Group's major financial instruments include loans to an associate/jointly controlled entities, trade and other receivables, amounts due from/to related parties, pledged bank deposits, bank balances, trade and other payables, and bank borrowings. Details of these financial instruments are disclosed in the respective notes. The market risks associated with these financial instruments include market risk (interest rate risk, foreign exchange risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

38. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives (Continued)

Market risk

(i) Interest rate risk

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank borrowings (see Note 25 for details of these borrowings). Management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

The Group is also exposed to fair value interest rate risk in relation to fixed-rate deposits placed with bank and bank borrowings (see Notes 21 and 25 for details of these respectively).

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. Fluctuations of HIBOR, LIBOR or prevailing rate quoted by the POB are the major sources of the Group's cash flow interest rate risks.

The sensitivity analyses below have been determined based on the exposure to interest rates of variable rate bank balances and borrowings. For variable-rate bank borrowings, the analysis is prepared assuming the amount of liability and bank balances outstanding at the balance sheet date was outstanding for the whole year. A 100 basis point increase or decrease is used and represents management's assessment of the reasonably possible change in interest rates.

If interests rates on interest bearing bank balances and bank borrowings had been 100 basis points higher/lower and all other variables were held constant, the Group's profit for the year would decrease/increase by approximately US$1,170,000 (2007: increase/decrease by US$636,000).

In management's opinion, the sensitivity analysis is not necessarily of the inherent interest rate risk as the year end exposure does not reflect the exposure during the year.

(ii) Foreign exchange risk

Certain subsidiaries of the Company have foreign currency bank balances as detailed in Note 22, which expose the Group to foreign exchange risk, whilst over 90% of the Group's sales and purchases and bank borrowings are denominated in the respective group entities' functional currency.

Sensitivity analysis

The following is the Group's sensitivity to a 5% increase and decrease in RMB against USD. 5% is the sensitivity rate used and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rates. The sensitivity analysis mainly includes the Group's USD bank balances and bank borrowings. Where RMB strengthens against USD by 5%, the Group's profit for the year would decrease by US$5,198,000 (2007: US$377,000), while a 5% weakening of RMB against USD, there would be an equal and opposite impact on the profit and balances would be negative.

In management's opinion, the sensitivity analysis is not necessarily of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

38. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives (Continued)

Market risk (Continued)

(iii) Other price risk

The Group is exposed to other price risk arising from the Call Options. The fair values of the Call Options were calculated using the Binomial Model and amongst other inputs, the estimates of earnings of the Relevant Companies and the price earnings ratio of the Company. Details of which are set out in Note 19.

Sensitivity analysis

As set out in Note 19, the fair values of the Call Options were valued using the Binomial Model, which uses cash flow projections based on assumptions that are not supported by observable current market transactions nor based on available observable market data. The fair values of the Call Options recognized in the financial statements would have been changed significantly if one or more of those assumptions were changed.

If individual input to the valuation model had been 10% higher/lower while all other variables were held constant, the profit for the year ended September 30, 2008 would have increased (decreased) as follows:

	Higher by 10% US$'000	Lower by 10% US$'000
Expected Volatility – the Company	782	(776)
Growth rate	(4,065)	2,924
Expected price earning ratio – the Company	(4,415)	2,576

In management's opinion, the sensitivity analyses are not necessarily representative of the inherent market risk as the pricing model used in the fair value valuation of the derivatives involves multiple variables where certain variables are interdependent.

Credit risk

As at September 30, 2008, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties and financial guarantees provided by the Group is arising from:

- the carrying amount of the respective recognized financial assets as stated in the consolidated balance sheet; and
- the amount of contingent liabilities in relation to financial guarantees issued by the Group as disclosed in Note 33.

The Group's customer base is diverse and the trade receivables consist of a large number of customers. However, the Group's concentration of credit risk on loans to an associate and jointly controlled entities covered over 17% (2007: 17%) of its total receivables. In order to minimize the credit risk arising from its open account sales, management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up actions are taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are provided for irrecoverable amounts. In this regard, the directors consider that the credit risk is significantly reduced.

38. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives (Continued)

Credit risk (Continued)
In addition to the credit risk on trade debts, the Group is also exposed to its advances to, and guarantees granted in relation to its associates and jointly controlled entities. The Group has secured the equity interests held by the other joint venture partners in these entities as collateral for the advances. In addition, because of the Group's involvement in the management of these entities, the Group is in a position to monitor their financial performance and can take timely actions to safeguard its assets and/or to minimize its losses. Accordingly, management believes that the Group's exposure in this regard is significantly reduced.

The Group's concentration of credit risk by geographical locations is mainly in PRC, which covered over 90% (2007: over 90%) of its total receivables as at September 30, 2008.

The credit risk on liquid funds is limited because the counterparties are banks with good reputation.

Liquidity risk
The Group relies on bank borrowings as a significant source of liquidity. Details of which are set out in Note 25.

With regard to the Group's liquidity risk, the management monitors and maintains a level of cash and cash equivalents deemed adequate to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilization of bank borrowings and ensures compliance with loan covenants.

The following table details the contractual maturity of the Group's financial liabilities. For non-derivative financial liabilities, the table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

	Weighted average interest rate %	0 to 30 days US$'000	30 to 90 days US$'000	91 to 365 days US$'000	Over 1 year US$'000	Total undiscounted cash flows US$'000	Carrying amount US$'000
As at September 30, 2008							
Non-interest bearing	-	95,465	9,166	1,845	-	106,476	106,476
Fixed interest rate instruments	6.28	9,493	3,104	-	-	12,597	11,852
Variable interest rate instruments	6.75	75,985	230,528	7,797	6,237	320,547	300,279
		180,943	242,798	9,642	6,237	439,620	418,607

38. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives (Continued)

Liquidity risk (Continued)

	Weighted average interest rate %	0 to 30 days US$'000	30 to 90 days US$'000	91 to 365 days US$'000	Over 1 year US$'000	Total undiscounted cash flows US$'000	Carrying amount US$'000
As at September 30, 2007							
Non-interest bearing	-	145,663	51,986	2,221	-	199,870	199,870
Fixed interest rate instruments	6.62	5,875	11,554	54,051	-	71,480	67,042
Variable interest rate instruments	6.71	3,358	6,715	30,780	26,969	67,822	63,558
		154,896	70,255	87,052	26,969	339,172	330,470

In addition to the above contractual obligation on its non-derivative liabilities, the Group is subject to make additional cash contribution to the associates and jointly controlled entities determined by the price adjustment mechanism as set out in Notes 15 and 16, should the financial performance of the associates and jointly controlled entities exceeds certain benchmarks.

(c) Fair value of financial instruments

The fair values of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input.

The Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortized cost in the consolidated financial information approximate their fair values.

39. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries as at September 30, 2008 and 2007:

Name of subsidiary	Place of incorporation or establishment/ operation	Issued and fully paid share capital/ registered capital	Attributable equity interests held (note a) 2008	2007	Principal activities
YY Sports Holdings Limited ("YY Sports")	British Virgin Islands ("BVI")	US$1	100%	100%	Investment holding
A – Grade Holdings Limited	BVI	US$9,000	100%	70%	Investment holding
Baosheng Daoji (Beijing) Trading Company Limited 寶盛道吉(北京)貿易有限公司 (note b)	PRC	US$8,880,000	100%	70%	Retailing of sportswear
Baoxin (Chengdu) Trading Company Limited 寶信(成都)商貿有限公司 (note b)	PRC	US$5,000,000	100%	70%	Retailing of sportswear
Baoyu (Chengdu) Trading Company Limited 寶渝(成都)商貿有限公司 (note b)	PRC	US$7,400,000	100%	63%	Retailing of sportswear
Beijing Baozhe Sports Company Limited 北京寶哲體育用品有限公司 (note c)	PRC	RMB20,000,000	100%	70%	Retailing of sportswear
Brightup Group Limited	HK	HK$1	100%	100%	Investment holding
Charming Technology Limited	BVI	US$200	100%	70%	Investment holding
Dailan Baoshun Sports Goods Company Limited 大連寶順體育用品有限公司 (note b)	PRC	RMB2,000,000	100%	70%	Retailing of sportswear
Dedicated Group Limited	BVI	US$1,000	100%	70%	Investment holding
Diodite Limited	BVI	US$1	100%	100%	Investment holding
Diodite (China) Sports Goods Company Limited 笛亞泰(中國)體育用品有限公司 (note b)	PRC	US$20,000,000	100%	100%	Retailing of sportswear
Dragonlight Group Limited	BVI	US$1	100%	100%	Investment holding
Dragonlight (China) Sports Goods Company Limited 龍光(中國)體育用品有限公司 (note b)	PRC	US$36,000,000	100%	100%	Investment holding
Favour Mark Holdings Limited	HK	HK$200	100%	100%	Investment holding
Fujian Baomin Sports Goods Company Limited 福建寶閩體育用品有限公司 (note b)	PRC	US$5,000,000	90%	63%	Retailing of sportswear

39. PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation or establishment/ operation	Issued and fully paid share capital/ registered capital	Attributable equity interests held (note a) 2008	2007	Principal activities
Great Sea Holdings Limited	HK	HK$100	100%	70%	Distribution of sportswear
Guangzhou Baoyuen Trading Company Limited 廣州寶元貿易有限公司 (note b)	PRC	US$2,470,000	100%	70%	Retailing of sportswear
Guangzhou Yangji Information Technology Company Limited 廣州市揚基信息科技有限公司 (note b)	PRC	HK$3,000,000	100%	70%	Retailing of sportswear
Guangzhou Shengdao Sports Goods Company Limited 廣州勝道體育用品有限公司 (note b)	PRC	RMB20,000,000	100%	N/A	Property leasing and management
Guiyang Baoxin Sports Goods Company Limited 貴陽寶新體育用品有限公司 (note b)	PRC	US$2,100,000	100%	70%	Retailing of sportswear
Harbin Baosheng Sports Goods Company Limited 哈爾濱寶勝體育用品有限公司 (note b)	PRC	RMB7,000,000	100%	70%	Retailing of sportswear
Hefei Baoxun Sports Goods Trading Company Limited 合肥寶勳體育用品商貿有限公司 (note b)	PRC	RMB1,000,000	100%	70%	Retailing of sportswear
Jinan Baoyue Sports Goods Company Limited 濟南寶嶽體育用品有限公司 (note c)	PRC	RMB2,000,000	72%	50.4%	Retailing of sportswear
Nanning Pou Guan Sporting Goods Company Limited 南寧寶冠體育用品有限公司 (note b)	PRC	US$1,300,000	100%	70%	Retailing of footwear
Nice Palace Investments Limited	HK	HK$200	100%	70%	Investment holding
Pau Yuen Trading Corporation 寶原興業股份有限公司	Taiwan	NTD50,000,000	90%	63%	Distribution of licenced products
Pau Zhi Trading Corporation 寶智企業股份有限公司	Taiwan	NTD5,000,000	90%	90%	Retailing of sportswear
Profit Concept Group Limited	BVI	US$1	51%	51%	Investment holding
Guizhou Shengdao Sports Goods Development Company Limited 貴州勝道體育用品開發有限公司 (note b)	PRC	RMB70,000,000	100%	88%	Property leasing and management

39. PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation or establishment/ operation	Issued and fully paid share capital/ registered capital	Attributable equity interests held (note a) 2008	2007	Principal activities
Qingdao Baoruina Sports Goods Company Limited 青島寶瑞納體育用品有限公司 (note c)	PRC	RMB20,000,000	72%	50.4%	Retailing of footwear
Rainbow Faith Investments Limited	HK	HK$200	100%	100%	Investment holding
Richwin Management Limited	BVI	US$1	100%	N/A	Investment holding
Shanghai Baoyuen Sports Goods Company Limited 上海寶原體育用品商貿有限公司 (note b)	PRC	US$10,000,000	100%	70%	Retailing of sportswear
Shanghai Shengdao Sports Goods Company Limited 上海勝道體育用品有限公司 (note b)	PRC	RMB100,000	100%	100%	Property leasing and management
Shengdao (Yangzhou) Sports Goods Development Company Limited 勝道(揚州)體育用品開發有限公司 (note b)	PRC	US$66,000,000	100%	100%	Investment holding
Shaanxi Baoxiang Sports Goods Company Limited 陝西寶祥體育用品有限公司 (note b)	PRC	RMB2,000,000	100%	70%	Retailing of sportswear
Selangor Gold Limited	BVI	US$1,000	100%	70%	Investment holding
Taicang Yusheng Moulding Company Limited 太倉裕盛模具有限公司 (note b)	PRC	US$2,100,000	100%	100%	Manufacturing of shoe moulds
Tiajian Baoxin Sports Goods Company Limited 天津寶信體育用品有限公司 (note b)	PRC	RMB1,000,000	100%	70%	Retailing of sportswear
Treasure Chain International Limited	BVI	US$1	100%	N/A	Investment holding
Wellmax Business Group Limited	BVI	US$9,000	100%	70%	Investment holding
Wuxi Baoyuen Sports Goods Trading Company Limited 無錫寶原體育用品商貿有限公司 (note b)	PRC	RMB1,000,000	100%	70%	Retailing of sportswear

39. PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation or establishment/ operation	Issued and fully paid share capital/ registered capital	Attributable equity interests held (note a) 2008	2007	Principal activities
Hubei Shengdao Sports Goods Company Limited 湖北勝道體育用品有限公司 (note c)	PRC	RMB50,000,000	60%	60%	Property leasing and management
Xian Baoqin Trading Company Limited ("Xian Baoqin ") 西安寶秦貿易有限公司 (note b)	PRC	US$20,000,000	100%	70%	Retailing of sportswear
Yue Sheng (Kunshan) Sports Co., Ltd. 裕晟(昆山)體育用品有限公司 (note b)	PRC	US$2,000,000	100%	70%	Distribution of licensed products
Yue Cheng (Kunshan) Sports Co., Ltd. 裕程(昆山)體育用品有限公司 (note b)	PRC	US$10,000,000	100%	70%	Distribution of licensed products
Yue Ming International Limited	HK	HK$1	100%	70%	Distribution of licensed products
Yue-Shen (Taicang) Footwear Co. Ltd. 裕盛(太倉)鞋業有限公司 (note b)	PRC	US$15,000,000	100%	100%	Manufacturing of sportswear
Yunnan Orientalsport Economy Trade Company Limited 雲南奧龍世博經貿有限公司 (note b)	PRC	RMB56,100,000	51%	51%	Retailing of sportswear
Yunnan Shengdao Sports Goods Company Limited 雲南勝道體育用品有限公司 (note c)	PRC	RMB87,500,000	60%	60%	Property leasing and management

notes:

a. The Company directly holds the interest in YY Sports. All other interests shown are indirectly held by the Company.

b. These companies are wholly-foreign owned enterprises established in the PRC.

c. These companies are sino-foreign owned enterprises established in the PRC.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had issued any debt securities during the year or at the end of the year.

40. ASSOCIATES

As at the balance sheet dates, the Group had interests in the following associates:

Name of entity	Place of incorporation or establishment/ operation	Proportion of issued and fully paid up capital indirectly held by the Company 2008	2007	Principal activities
Farsighted International Limited ("Farsighted")	BVI	30%	30%	Investment holding in in a group of PRC companies which are engaged in retailing of sportswear
Zhejiang Baohong Sports Goods Company Limited 浙江寶宏體育用品有限公司	PRC	49%	49%	Retailing of sportswear
Shaanxi Wuhuan Shengdao Sports Production Development Company Limited 陜西五環勝道運動產業開發有限公司	PRC	40%	40%	Retailing of sportswear

All of the above, other than Farsighted, are sino-foreign enterprises established in the PRC.

41. JOINTLY CONTROLLED ENTITIES

As at the balance sheet dates, the Group had interest in the following jointly controlled entities:

Name of entity	Place of incorporation or establishment/ operation	Proportion of issued and fully paid up capital indirectly held by the Company 2008	2007	Principal activities
Harbin Shenge Sports Chain Company Limited 哈爾濱申格體育連銷有限公司	PRC	45%	45%	Retailing of sportswear
Suzhou Xinjun Trading Development Company Limited 蘇州信俊貿易發展有限公司	PRC	49%	49%	Retailing of sportswear
Hebei Zhanxin Sports Development Company Limited 河北展新體育發展有限公司	PRC	45%	45%	Retailing of sportswear
Heifei Tengrei Sports Goods Company Limited 合肥騰瑞體育用品有限公司	PRC	50%	50%	Retailing of sportswear

41. JOINTLY CONTROLLED ENTITIES (Continued)

Name of entity	Place of incorporation or establishment / operation	Proportion of issued and fully paid up capital indirectly held by the Company 2008	2007	Principal activities
Hubei Jiezhixing Clothing and Accessories Company Limited 湖北杰之行服飾有限公司	PRC	50%	50%	Retailing of sportswear
Jilin Xinfangwei Sports Goods Company Limited 吉林新方位體育用品有限公司	PRC	50%	50%	Retailing of sportswear
Jilin Lingpao Sports Goods Company Limited 吉林領跑體育用品有限公司	PRC	50%	50%	Retailing of sportswear
Shaanxi Jixian Longyue Sports Goods Company Limited 陜西極限龍躍體育用品有限公司	PRC	50%	50%	Retailing of sportswear
Zhejiang Jinguan Enterprise Development Company Limited 浙江金冠實業發展有限公司	PRC	50%	50%	Retailing of sportswear
Zhejiang Yichuan Sports Goods Chain Company Limited 浙江易川體育用品連鎖有限公司	PRC	50%	50%	Retailing of sportswear
Hangzhou Baohong Sports Goods Company Limited 杭州寶宏體育用品有限公司	PRC	50%	50%	Retailing of sportswear
Guiyang Baoshang Sports Goods Company Limited 貴陽寶尚體育用品有限公司	PRC	50%	50%	Retailing of sportswear
Wenzhou Baofeng Trading Company Limited 溫州寶灃商貿有限公司	PRC	50%	50%	Retailing of sportswear

All of the above are sino-foreign enterprises established in the PRC.

FINANCIAL SUMMARY

RESULTS

	Year ended September 30,			
	2005	2006	2007	2008
	US$'000	US$'000	US$'000	US$'000
Turnover	207,177	372,960	555,903	959,548
Profit for the year	6,025	21,012	43,934	79,701
Attributable to:				
Equity holders of the Company	3,315	11,383	31,927	70,024
Minority interests	2,710	9,629	12,007	9,677
	6,025	21,012	43,934	79,701

ASSETS AND LIABILITIES

	As at September 30,			
	2005	2006	2007	2008
	US$'000	US$'000	US$'000	US$'000
Total assets	159,545	214,661	553,930	1,137,406
Total liabilities	(130,522)	(162,999)	(366,541)	(475,097)
	29,023	51,662	187,389	662,309
Equity attributable to:				
Equity holders of the Company	22,575	36,368	138,417	645,716
Minority interests	6,448	15,294	48,972	16,593
	29,023	51,662	187,389	662,309

Note:

The financial information for each of the three years ended September 30, 2007 has been extracted from the Company's prospectus dated May 26, 2008.