Potential investors should read the following discussion and analysis of our financial condition as of 30 June 2006, 2007 and 2008 and as of 31 March 2009 and results of operations together with our combined financial information for the financial years ended 30 June 2006, 2007 and 2008 and the nine months ended 31 March 2008 and 2009 and the accompanying notes included in the accountants' report set out in Appendix I to this prospectus. Our combined financial information as of and for the nine months ended 31 March 2008 has not been audited. Our combined financial statements have been prepared in accordance with HKFRSs. Potential investors should read the whole of the accountants' report set out in Appendix I to this prospectus and not rely merely on the information contained in this section. The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. For additional information regarding these risks and uncertainties, please refer to the section headed "Risk Factors" in this prospectus.

OVERVIEW

We are one of the leading domestic sportswear enterprises in the PRC. As of the Latest Practicable Date, our *361°* products were sold at more than 5,900 *361°* authorised retail outlets in 31 provinces and most major cities in the PRC. According to Frost & Sullivan, among the ten major participants of the PRC sportswear market (selected based on revenue for 2008), we were the fastest growing brand in terms of revenue growth rate for 2008 as compared to 2007, a top five domestic brand in terms of revenue for 2008, accounting for 4.2% of the total revenue of the PRC sportswear market for the same period, and a top five brand in terms of the number of retail outlets in the PRC as of 31 March 2009.[(1)] We design, develop, produce, market and distribute high performance, innovative and stylish sportswear products, including athletic footwear, apparel and accessories. Our *361°* products are marketed primarily to the fast-growing, up-and-coming consumer group comprised of sports-minded consumers between the ages of 16 and 25. Founded in 2003, we have grown rapidly in recent years in terms of sales and number of authorised retail outlets. We believe our growth has been driven principally by the successful promotion of our *361°* brand, rapid expansion of the *361°* retail network, improved product designs, expansion of our range of product offerings, and our conversion to an exclusive distributorship business model. Increasing market demand for sportswear products and improving economic conditions in the PRC also contributed to our growth.

Our brand, *361°*, represents the 360 degrees of a complete circle plus one extra degree, symbolising our goal of establishing our brand to provide complete satisfaction in athleticism and functionality, plus an added degree of innovation and creativity. It also represents our continuous commitment to always pursuing one more degree of management and operational excellence and highlights our goal of distinguishing *361°* from other competitors by this one degree.

As of the Latest Practicable Date, the distribution network of our *361º* products consisted of 30 distributors who oversaw 3,173 authorised retailers. These authorised retailers owned and operated 5,925 *361°* authorised retail outlets, covering 31 provinces and more than 450 district-level cities, as well as more than 1,200 county-level cities in the PRC. Currently, we do not have any interest in, or operate, any of our distributors, authorised retailers, or *361°* authorised retail outlets. While we do not have direct contractual relationships with authorised retailers, our distributors enter into separate agreement with authorised retailers and require them to comply with our standard operating procedures, some of which include guidelines on the design and layout of *361°* authorised retail outlets, product pricing and customer service. To ensure compliance with these procedures and to assist authorised retailers with marketing and sales, our regional sales managers routinely visit *361°* authorised retail outlets. In addition, we offer authorised retailers and *361°* authorised retail outlets training programmes several times a year.

Our production facilities are located in Jinjiang City, Fujian Province, the PRC. As of the Latest Practicable Date, we operated 16 footwear production lines, with an aggregate annual production capacity of approximately

Note:

(1) Please refer to "Industry Overview—The PRC Sportswear Industry" section in this prospectus for more information.

13.6 million pairs of footwear. We do not operate any production facilities for apparel or accessories and have, during the Track Record Period, outsourced all production of those products to third-party contract manufacturers.

Our revenues for the financial years ended 30 June 2006, 2007 and 2008 were RMB262.9 million, RMB373.3 million and RMB1,317.1 million, respectively, representing a CAGR of 123.8%. Our gross profits for the financial years ended 30 June 2006, 2007 and 2008 were RMB27.1 million, RMB76.9 million and RMB348.0 million, respectively, representing a CAGR of 258.6%. Our net profits for the financial years ended 30 June 2006, 2007 and 2008 were RMB11.0 million, RMB22.9 million and RMB179.0 million, respectively, representing a CAGR of 303.3%. Our revenues for the nine months ended 31 March 2008 and 2009 were RMB853.7 million and RMB2,423.7 million, respectively, representing an increase of 183.9%. Our gross profits for the nine months ended 31 March 2008 and 2009 were RMB202.4 million and RMB791.3 million, respectively, representing an increase of 291.1%. Our net profit for the nine months ended 31 March 2008 and 2009 were RMB102.7 million and RMB364.2 million, respectively, representing an increase of 254.8%. The significant growth in our profits for the financial year ended 30 June 2008 and the nine months ended 31 March 2009, as compared to the financial year ended 30 June 2007 and the nine months ended 31 March 2008, respectively, was primarily due to the successful promotion of our *361°* brand, rapid expansion of the *361°* retail network, improved product design, expansion of our range of product offerings, and our conversion to an exclusive distributorship business model, which encouraged our distributors to concentrate their resources exclusively on the wholesale distribution of our *361°* products and helped us to develop and expand the *361°* retail network.

BASIS OF PRESENTATION OF FINANCIAL INFORMATION

Mr. Ding Huihuang, Mr. Ding Wuhao and Mr. Ding Huirong owned various companies in the BVI, Hong Kong and the PRC which are principally engaged in the manufacturing and trading of sporting goods, including footwear, apparel and accessories in the PRC. To rationalise the corporate structure in preparation of the listing of the Company's shares on the Stock Exchange, the Company underwent the Corporate Reorganisation, as detailed in the section headed "Corporate Reorganisation" in Appendix VI to this prospectus.

As the companies that took part in the Corporate Reorganisation were controlled by the same group of ultimate equity holders, Mr. Ding Huihuang, Mr. Ding Wuhao and Mr. Ding Huirong, through their interests in Ming Rong International, Dings International and Hui Rong International (referred to as "**the controlling equity holders**") before and after the Corporate Reorganisation and, consequently, there was a continuation of the risks and benefits to the controlling equity holders and therefore this is considered as a business combination under common control and Accounting Guideline 5 "Merger Accounting for Common Control Combinations" has been applied. The combined financial information has been prepared using the merger basis of accounting as if we had always been in existence. The net assets of the combining companies are combined using the existing book values from the controlling equity holders' perspective.

Our combined income statements, combined statements of changes in equity, and combined cash flow statements as set out in Appendix I to this prospectus for the Track Record Period include the results of operations of the companies of which we are comprised (or where the companies were incorporated/established at a date later than 1 July 2005, for the period from the date of incorporation/establishment to 31 March 2009) as if the current group structure had been in existence throughout the Track Record Period. Our combined balance sheets as of 30 June 2006, 2007 and 2008 and 31 March 2009 as set out in Appendix I to this prospectus have been prepared to present the state of affairs of the companies of which we are comprised as of those dates, as if the current group structure had been in existence as of the respective dates.

The combined financial information included in the accountants' report in Appendix I to this prospectus has been prepared in accordance with HKFRSs promulgated by the HKICPA, the disclosure requirements of the Companies Ordinance and the applicable disclosure provisions of the Listing Rules. HKFRSs include HKASs and Interpretations.

We did not prepare combined financial statements previously. This is our first HKFRSs combined Financial Information, and HKFRS 1 "First-time adoption of Hong Kong Financial Reporting Standards" has been applied.

During the Track Record Period, the HKICPA issued a number of new and revised HKFRSs. For the purpose of preparing the financial information, we have adopted all of these new and revised HKFRSs applicable to the Track Record Period, except for any new standards or interpretations that are not yet effective for the accounting periods beginning on or after 1 January 2009. See note 26 to the combined financial statements in Appendix I to this prospectus.

Intra-group balances and transactions are eliminated in full in preparing the combined financial information.

FACTORS AFFECTING OUR FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Our financial condition and results of operations have been and will continue to be affected by a number of factors, including those factors discussed below, some of which are beyond our control.

Consumer demand for sportswear in the PRC

Consumer demand in the PRC for sportswear is one of the key drivers of our revenues from sales of our *361°* products and depends in large part on the general economic conditions in the PRC, the growth in disposable income of residents of the PRC and consumption patterns in the PRC. The increase in the purchasing power of PRC residents is expected to drive in part sentiment towards the purchase of sportswear products that bear a well-recognised brand, which may positively affect our results of operations. According to the PRC General Administration of Sport, there is a general correlation between increasing income levels and the rising popularity of sports.

Our growth also depends on the existence and the continuation of consumer spending preferences in the PRC for sportswear. Based on data from Frost & Sullivan, total sportswear revenue in the PRC increased from US$2.5 billion (RMB20.8 billion) in 2004 to US$7.7 billion (RMB53.3 billion) in 2008. According to Frost & Sullivan, total sportswear revenue in China is expected to reach US$31.3 billion (RMB197.9 billion) in 2013, representing a CAGR of 32.5% over the period from 2008 to 2013. We also expect there will be a growth in interest in sports among PRC consumers as a result of, among other events, the 2008 Beijing Olympic Games (2008年北京奧運會), the 2009 East Asian Games (2009東亞運動會) in Hong Kong and the 16th Asian Games in Guangzhou in 2010 (廣州2010年亞運會). Changes in consumption patterns in the PRC or a less than expected increase in consumer spending for sportswear products may materially and adversely affect our financial condition and results of operations.

Our ability to maintain our competitive strengths that differentiate us from our competitors

The demand for sportswear in the PRC has grown rapidly in recent years, in line with the general economic growth of the PRC. We believe that the sportswear industry is highly competitive in the PRC and will continue to be so for the near future. Participants in the sportswear industry in the PRC market include international and domestic brands, which compete in, among other things, brand loyalty, product variety, product design, product quality, marketing and promotion, distribution network coverage, price and the ability to meet delivery commitments to distributors and authorised retailers. This competition has led to leading brands continuing to gain market share at the expense of less established, lower-end brands. We must continue to meet these competitive challenges by maintaining our competitive strengths, such as our extensive, fast-growing distribution network, innovative design and product development capabilities, innovative marketing and promotion strategies as well as experienced management team, to offer customers high quality products in the PRC and to differentiate ourselves from our competitors.

Our ability to continuously maintain and enhance our *361°* brand recognition

Our financial condition and results of operations will also be affected by our ability to continuously maintain and enhance recognition of our *361°* brand. In particular, we believe that our success will depend on our ability to implement our innovative multimedia marketing and promotion strategies and improve our authorised retail outlets in terms of size, location and layout. For the financial years ended 30 June 2006, 2007 and 2008 and the nine months ended 31 March 2009, our advertising and marketing expenses accounted for approximately 3.3%, 9.1%, 6.4% and 9.3% of our total revenue for each of those periods, respectively. We currently intend to increase our expenditures in advertising and marketing to further strengthen our brand and market position. If we are unsuccessful in promoting our *361°* brand or fail to maintain our brand position, market perception and consumer acceptance of our *361°* brand may be eroded, and our business, financial condition, results of operations and prospects may be materially and adversely affected.

Our ability to continue to expand and develop the *361°* distribution network

Under our current business model, all of our sales of our *361°* products are made to our distributors. Prior to 2008, all of our sales were made to customers who either resold our products to authorised retailers or sold our products at their self-operated retail outlets. We believe that our rapid growth during calendar year of 2008 was in part attributable to our ability to leverage the resources of our distributors after adoption of the exclusive distributorship business model. However, we cannot assure you that the significant growth since the adoption of our new business model in 2008 will be sustainable or achieved at all in the future. Our financial condition and results of operations will be affected by our ability to work closely with our distributors to increase and improve our marketing programmes, our ability to expand and optimise our network of distributors, and the ability of our distributors and authorised retailers to further enhance the network of *361°* authorised retail outlets being operated within their exclusive geographic regions. If we fail to expand and develop the distribution network of our *361°* products, our financial condition and results of operations may be materially and adversely affected. See "Risk Factors—We rely on our distributors to oversee authorised retailers and to expand the *361°* retail network" and "our *361°* brand has a limited history in the branded sportswear industry and our new exclusive distributorship business model has a short track record".

Pricing of our products

The brand power of our *361°* brand is a significant factor that we take into consideration in determining the suggested retail prices of our *361°* products. Our ability to continue to price our *361°* products at current levels is important to our financial performance. We require our distributors and authorised retailers to comply with our uniform retail prices, which we determine based on various factors such as our internal and outsourcing production costs, our competitors' pricing strategies, consumers' purchasing power in the PRC and general economic conditions in the PRC. We market our *361°* products to the fast-growing, up-and-coming consumer group comprised of sports-minded consumers between the ages of 16 and 25 who, we believe, are willing to pay a relatively higher price for sportswear products with athletic functionality, and innovation and creativity. We believe our product positioning enables us to capture a well-defined market with growing demand. In light of the growing demand and increasing popularity of our products, we have been increasing the average wholesale selling prices and retail prices of our *361°* footwear products during the Track Record Period, which we believe has helped increase our revenues and profitability. Going forward, our ability to continue to attract consumers by offering sportswear products with athletic functionality, and innovation and creativity that are differentiated from those of our competitors should have a direct impact on the pricing of our products.

Our product mix

We offer a wide range of sportswear products for both men and women, including footwear, apparel and accessories. We continuously monitor our product mix and develop new products that we believe will generate higher customer demand, as part of our efforts to maximise revenues. During the Track Record Period, we underwent a shift in the mix of revenues generated from our different product lines. Our revenues derived from sales of apparel increased to 33.1% and 50.9% of our *361°* products revenues for the financial year ended 30 June 2008 and the nine months ended 31 March 2009 from 6.2% and 29.3% of our *361°* products revenues for the financial year ended 30 June 2007 and the nine months ended 31 March 2008, respectively. We also introduced *361°* accessories in 2007, which had the highest gross profit margin in 2008 among our three *361°* product lines.

Although we believe that revenue contributions from each of our three product lines as a percentage of total revenue will remain relatively stable in the near future, we will continue to adjust our product mix within each product line and enhance our product positioning in an effort to increase our revenues and gross profit. As we adjust our product mix, our gross profit will be affected both by any change in revenues attributable to, and any change in the gross profit margin of, each product line.

Cost of raw materials for our *361°* products

The principal raw materials used in the production of our footwear products are leather, synthetic leather, fabrics, rubber, plastics and soles. For the financial years ended 30 June 2006, 2007 and 2008 and the nine months ended 31 March 2009, the cost of our raw materials accounted for approximately 53.1%, 56.4%, 47.0% and 23.8%, respectively, of our cost of sales for our *361°* products. We do not include in our cost of raw materials the cost of raw materials incurred by our contract manufacturers to whom we outsourced the production of some of our footwear, all of our apparel and all of our accessories during the Track Record Period. It is important for us to obtain from our suppliers sufficient quantities of quality raw materials in a timely manner and at competitive prices for our internal production of footwear. The cost of some of our key raw materials is affected by several factors, such as fluctuations in commodity prices (including oil), purchase volume and availability of substitute materials. We do not enter into long-term agreements with our raw material suppliers. Fluctuations in the costs of our principal raw materials and our inability to pass on any increases in raw material costs to our customers by increasing the suggested retail prices of our products or increasing the sale price to our distributors may materially and adversely affect our cost of sales and our gross profit margins. See "We rely on a small number of suppliers for certain raw materials. Unfavourable fluctuations in the price, availability and quality of raw materials could cause production delays and materially increase production costs" in the section headed "Risk Factors—Risks Relating to Our Business" in this prospectus.

Ability to maintain production flexibility through internal and external production

We produced approximately 100%, 98.5%, 90.4% and 60.7% of our footwear products in terms of production volume at our own production facilities, located in Jinjiang City, Fujian Province, the PRC, for the financial years ended 30 June 2006, 2007 and 2008 and the nine months ended 31 March 2009, respectively. The percentage of our outsourced footwear production increased significantly to approximately 39.3% for the nine months ended 31 March 2009 as our production capacity for the same period (approximately 10.2 million pairs of footwear) lagged behind the increasing demand of our footwear (approximately 14.3 million pairs of footwear sold during the period). As of the Latest Practicable Date, we operated 16 footwear production lines with an aggregate production capacity of 13.6 million pairs of footwear products per annum. We currently intend to increase our footwear production to an annual production capacity of 15.3 and 17.9 million pairs of footwear by December 2009 and June 2010, respectively. We also plan to initiate our own apparel production which will have an annual production capacity of 1.8 million pieces of apparel by June 2010. Until we are able to increase our internal production capacity, we expect our reliance on external production to increase as our sales increase in the near future. If our contract manufacturers are unable to meet our production requirements on time, or at all, our ability to grow our business will be adversely affected. Our financial condition and results of operations will be significantly affected by our ability to maintain strong production capability and our flexibility in making effective use of our internal production and contract manufacturers.

Seasonality

Our results of operations are subject to seasonality. Our *361°* products typically achieve higher sales when we sell our *361°* products for the spring and summer seasons to our distributors due to seasonality of demand for sportswear and the lower average selling price of spring and summer products as compared to autumn and winter products. We generally sell and distribute our spring and summer seasonal products from February to August, and our autumn and winter seasonal products from September to January. Unexpected and abnormal changes in climate may affect the sales of our products that are timed for release during a particular season. For example, a warm winter may affect the sales of our jackets and other winter products, while a cool summer may affect the sales of T-shirts and other summer products. As a result, we believe that comparisons of our operating results and net income over any interim periods may not be meaningful and such comparisons may not be an accurate indicator of our future performance.

Level of income tax and preferential tax treatment

Our profit attributable to our Shareholders is affected by the level of income tax that we pay and the level of preferential tax treatment to which we may be entitled. On 16 March 2007, the National People's Congress of the PRC (全國人民代表大會) promulgated the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法) (the "**New Tax Law**"), which came into effect on 1 January 2008. The New Tax Law consolidates the two separate tax regimes for domestic enterprises and foreign-invested enterprises (the "**Old Tax Regime**") and imposes a unified enterprise income tax rate of 25% for both domestic enterprises and foreign-invested enterprises in the PRC.

Under the New Tax Law, foreign-invested enterprises that enjoyed a preferential tax rate prior to the New Tax Law's promulgation will gradually transit to the new tax rate over five years from 1 January 2008. Foreign-invested enterprises that enjoyed a tax rate of 24% will have their tax rate increased to 25% in 2008. Enterprises which enjoyed a fixed period of tax exemption and reduction prior to the New Tax Law's promulgation will continue to enjoy such preferential tax treatment until the expiry of such prescribed period, and for those enterprises whose preferential tax treatment has not commenced before due to lack of profit, such preferential tax treatment will commence from 1 January 2008.

Under the Old Tax Regime and as approved by the relevant tax authorities, Sanliuyidu Fujian, a foreign-invested enterprise, was exempted from enterprise income tax for its first two profitable years, commencing from 1 January 2004, and thereafter was entitled to a 50% reduction in the enterprise income tax for the three subsequent years until 31 December 2008. Sanliuyidu Fujian enjoyed full exemption from enterprise income tax in 2004 and 2005, as well as a 50% reduction of its enterprise income tax rate of 24% in 2006 and 2007, which had a significant positive effect on our profit after taxation during the financial years ended 30 June 2006 and 2007. Under the New Tax Law, Sanliuyidu Fujian continued to enjoy a 50% reduction of the phased-in enterprise income tax rate of 25% until 31 December 2008 and has thereafter been subject to a 25% tax rate.

Under the New Tax Law, Sanliuyidu China is exempted from the enterprise income tax for its first two profitable years, commencing from 1 January 2008 and thereafter is entitled to a 50% reduction in the phased-in enterprise income tax rate of 25% for the subsequent three years until 31 December 2012. We expect that upon the expiry of the full exemption from enterprise income tax currently enjoyed by Sanliuyidu China, the tax rate applicable to our Group will increase from 2010 onwards and will further increase from 2013 following the expiry of the above preferential tax treatment.

Sanliuyidu Xiamen was incorporated on 19 May 2008 and is not entitled to enjoy any tax exemption or reduction since its incorporation. It did not commence operations nor generate any assessable profit until September 2008 and has thereafter been subject to the phased-in enterprise income tax rate of 25%.

Under the New Tax Law, if an enterprise incorporated outside the PRC has its "effective management" located within the PRC, such enterprise may be recognised as a PRC tax resident enterprise and be subject to the unified enterprise income tax rate of 25% for its worldwide income. Members of our Group which are not incorporated in the PRC may in the future be recognised as a PRC tax resident enterprise according to the New Tax Law by the PRC taxation authorities. According to the New Tax Law, dividends received by a qualified PRC tax resident from another PRC tax resident are exempted from enterprise income tax. However, given the limited history of the New Tax Law, it remains unclear as to the detailed qualification requirements for such exemption and whether dividends declared and paid by members of our Group in the PRC to their overseas holding companies will be exempted from enterprise income tax if they are recognised as PRC tax residents. Our financial performance will be materially and adversely affected if such dividends are subject to enterprise income tax. See "Any change in our tax treatment, including an unfavourable change in preferential enterprise tax rates in the PRC, may have a material adverse impact on our financial condition and results of operations" in the section headed "Risk Factors—Risks Relating to Conducting Business in the PRC" in this prospectus.

In addition, under the New Tax Law and its implementation rules, our Company may in the future be recognised as a PRC tax resident enterprise by the PRC taxation authorities, capital gains realised by foreign Shareholders from sales of our Shares and dividends on our Shares payable to foreign Shareholders may be regarded as income from "sources within the PRC" and therefore become subject to a 10% withholding income tax. If we are required under the New Tax Law to withhold PRC income tax on capital gains on sales of Shares and/or dividends on our Shares payable to foreign Shareholders, the value of our foreign Shareholders' investment in our Shares may be materially and adversely affected.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

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

Judgements made by us in the application of HKFRS that have a significant effect on the financial information and estimates with a significant risk of material adjustment in the next year are discussed in note 24 to our combined financial statements in the accountants' report set out in Appendix I to this prospectus.

The accounting policies set out below have been applied consistently to all periods presented in the financial information.

Revenue recognition

We recognise revenue as profit or loss when we are able to measure such profit or loss and it is probable that the economic benefits will flow to us. Revenues of the following type are recognised as follows:

- Sale of goods—Revenue is recognised when our products leave our warehouse because at that time the customer has accepted the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts and goods return.
- Interest income—Interest income is recognised as it accrues using the effective interest method.
- Government grants—Government grants are recognised in the balance sheet initially when there is reasonable assurance that they will be received and that we will comply with the conditions attaching to them. Grants that compensate us for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate us for the cost of an asset are initially recognised as deferred income and subsequently recognised as revenue in profit or loss upon satisfaction of the conditions attaching to the grants.

Impairment of trade and other receivables

We review trade and other receivables that are stated at cost or amortised cost as of each balance sheet date to determine whether objective evidence of impairment exists as of such date. Objective evidence of impairment includes observable data about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;

- likelihood of the debtor entering bankruptcy or other financial reorganisation; and
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

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

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

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

Inventory

Inventory is carried at the lower of cost and net realisable value. Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventory to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. These estimates are based on current market conditions and our experience of manufacturing and selling products of a similar nature. These estimates could change significantly as a result of changes in customer preferences and competitor actions in response to severe industry cycles. We reassess these estimates as of each balance sheet date.

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

We conduct physical stock counts at the end of each financial year and we record a specific provision if the estimate of the net realisable value of any inventory is below the corresponding cost of such inventory, as a result of, among other things, being obsolete or damaged. During the Track Record Period, we were not required to make any provisions because we only commenced mass production upon confirmation of purchase orders with our customers prior to 2008. Beginning in 2008, we procured a portion of raw materials and commenced production, before receipt of purchase orders, of a portion of the indicated purchase volume of certain products for which we received high purchase volume indications from our distributors during their preview of the prototype products, and we procured the majority of raw materials and commenced production of the majority of our products upon confirmation of purchase orders with our distributors or customers. As of 30 April 2009, all of the finished goods in stock as of 30 June 2006, 2007 and 2008 and RMB76.4 million, or 90.7%, of finished goods in stock as of 31 March 2009 were subsequently consumed or sold above cost.

Property, plant and equipment

We state items of property, plant and equipment in the balance sheet at cost less accumulated depreciation and impairment losses. The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initiate estimate, where relevant, of the cost of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs. We calculate depreciation to write-off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

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

Both the useful life of an asset and its residual value, if any, are reviewed at least annually.

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

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

RESULTS OF OPERATIONS

Selected Combined Income Statements Information

The selected combined income statements information presented below for the financial years ended 30 June 2006, 2007 and 2008 and the nine months ended 31 March 2008 and 2009 are derived from our combined financial statements included in the accountants' report set out in Appendix I to this prospectus. Our combined financial information as of and for the nine months ended 31 March 2008 has not been audited.

	For the financial year ended 30 June			For the nine months ended 31 March	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Revenues	262,923	373,346	1,317,069	853,651	2,423,679
Cost of sales	(235,865)	(296,423)	(969,041)	(651,292)	(1,632,354)
Gross profit	**27,058**	**76,923**	**348,028**	**202,359**	**791,325**
Other revenue	824	1,591	2,467	1,031	5,827
Other loss	—	—	(1,948)	—	(54)
Selling and distribution expenses	(9,977)	(36,484)	(106,409)	(62,507)	(286,288)
Administrative expenses	(5,668)	(12,699)	(39,595)	(24,561)	(68,209)
Profit from operations	**12,237**	**29,331**	**202,543**	**116,322**	**442,601**
Finance costs	(1,250)	(3,026)	(5,371)	(3,457)	(11,883)
Profit before taxation	**10,987**	**26,305**	**197,172**	**112,865**	**430,718**
Income tax	19	(3,394)	(18,199)	(10,209)	(66,513)
Profit for the year/period	**11,006**	**22,911**	**178,973**	**102,656**	**364,205**
Dividends payable to equity shareholders of the Company attribute to the year/period:					
Dividends declared during the year/period	—	—	—	—	45,342
Dividends declared after the balance sheet date	—	—	—	—	31,400
	—	—	—	—	76,742
Basic earnings per share (RMB)	0.007	0.015	0.119	0.068	0.243

PRINCIPAL INCOME STATEMENT COMPONENTS

Revenues

Substantially all of our revenues are derived from sales of our *361*° products, consisting of footwear, apparel and accessories. In addition, 0.5%, 1.3% and 0.7% of our revenues for the financial years ended 30 June 2006, 2007 and 2008, respectively, were contributed by sales of footwear material, consisting of TPR pellets and TPU pellets that we manufactured for sale to various manufacturers of soles for footwear. We ceased producing and selling these pellets in July 2008 as this business did not achieve our targeted results. Further, we used to provide certain packaging materials, such as shoe boxes and shopping bags embossed with our *361º* logo, to our distributors and pre-2008 customers for use by the authorised retailers in connection with sales of our *361º* products at our cost, and such cost had been recognised as our selling and distribution expenses. In order to encourage efficiency in resources management, starting from June 2008, we only provide our distributors with a certain amount of packaging materials as we think fit at our cost, and provide additional packaging materials to our distributors only at their requests and at a charge. Such charges are regarded as sales of packaging materials by us. Sales of packaging materials accounted for approximately 0.1% of our revenue for the nine months ended 31 March 2009. Revenues represent the value of goods sold, less returns, discounts and value-added taxes and other sales tax. The following table sets forth a breakdown of our revenues during the Track Record Period:

	For the financial year ended 30 June						For the nine months ended 31 March			
	2006		2007		2008		2008		2009	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000 (unaudited)	%	RMB'000	%
Revenues										
Footwear	240,325	91.4	345,890	92.6	866,134	65.8	599,087	70.2	1,133,237	46.8
Apparel	21,229	8.1	22,739	6.1	432,737	32.8	248,211	29.1	1,232,942	50.9
Accessories and others(1)	1,369	0.5	4,717	1.3	18,198	1.4	6,353	0.7	57,500	2.3
Total	**262,923**	**100.0**	**373,346**	**100.0**	**1,317,069**	**100.0**	**853,651**	**100.0**	**2,423,679**	**100.0**

Note:

(1) "Others" include revenues from sales of TPR and TPU pellets for the three financial years ended 30 June 2008 and sales of certain packaging materials for the nine months ended 31 March 2009, respectively.

The significant growth of our *361*° product sales was primarily due to the successful promotion of our *361*° brand, rapid expansion of the *361*° retail network, which grew from 1,391 *361*° authorised retail outlets as of 30 June 2006 to 3,126 as of June 2007, 4,632 as of 30 June 2008 and 5,543 *361*° authorised retail outlets as of 31 March 2009, improved product design, expansion of our range of product offerings, and our conversion to an exclusive distributorship business model, which encouraged our distributors to concentrate their resources exclusively on the wholesale distribution of our *361*° products and help us to develop and expand the *361*° retail network. Increasing market demand for sportswear products and improving economic conditions in the PRC also contributed to our growth. In addition, the 2008 Beijing Olympic Games (2008年北京奧運會), which increased the PRC public's interest in, and awareness of, sports and fitness, slightly contributed to the increase of our sales in 2008 and the first quarter of 2009. We do not believe that completion of the 2008 Beijing Olympics Games (2008年北京奧運會) will have a material adverse effect on our growth, as we believe that our *361*° brand will continue to strengthen and gain increasing market acceptance as we implement our strategy of further developing and increasing awareness of our *361*° brand.

Our product mix changed significantly during the Track Record Period as we expanded our *361*° product line to include apparel in February 2005 and accessories in September 2007 to meet demand from consumers for *361*° apparel and accessories and to diversify our *361*° branded product offerings. As a result, our revenues from sales of footwear decreased from 91.4% of our total revenues for the financial year ended 30 June 2006 to 65.8% and 46.8% of our total revenues for the financial year ended 30 June 2008 and the nine months ended 31 March 2009, respectively. On the other hand, our revenues from sales of apparel increased from 8.1% of our total revenues for the financial year ended 30 June 2006 to 32.8% and 50.9% of our total revenues for the financial year ended 30 June 2008 and the nine months ended 31 March 2009, respectively. However, we believe that revenue contributions from each of our three product lines (i.e. footwear, apparel and accessories) as a percentage of total revenue will remain relatively stable in the near future.

The following table sets forth the number of units sold and the average wholesale selling prices of our *361°* products during the Track Record Period:

	For the financial year ended 30 June						For the nine months ended 31 March			
	2006		2007		2008		2008		2009	
	Total units sold	Average wholesale selling price(1)	Total units sold	Average wholesale selling price(1)	Total units sold	Average wholesale selling price(1)	Total units sold	Average wholesale selling price(1)	Total units sold	Average wholesale selling price(1)
	'000	RMB	'000	RMB	'000	RMB	'000	RMB	'000	RMB
							(unaudited)			
***361°* Products**										
Footwear (pairs)	4,973	48.3	5,888	58.7	12,095	71.6	8,210	73.0	14,262	79.5
Apparel (pieces)	316	67.2	337	67.5	8,756	49.4	5,488	45.2	20,174	61.1
Accessories (pieces/pairs)	—	—	—	—	1,422	6.8	19	14.8	5,399	10.3

Note:

(1) Average wholesale selling price represents revenues for the item sold divided by the total units of that item sold for the year/period.

The total number of pairs of our *361°* footwear sold increased by 18.4% from 5.0 million for the financial year ended 30 June 2006 to 5.9 million for the financial year ended 30 June 2007, and by 105.4% from 5.9 million for the financial year ended 30 June 2007 to 12.1 million for the financial year ended 30 June 2008. The total number of pairs of our *361°* footwear sold increased by 73.7% from 8.2 million for the nine months ended 31 March 2008 to 14.3 million for the nine months ended 31 March 2009. These increases were primarily due to successful promotion of our *361°* brand, rapid expansion of the *361°* retail network, improved product design, expansion of our range of product offerings, and our conversion to an exclusive distributorship business model. Increasing market demand for sportswear products and improving economic conditions in the PRC also contributed to our increase in sales.

The average wholesale selling price of our *361°* footwear increased by 21.5% from RMB48.3 for the financial year ended 30 June 2006 to RMB58.7 for the financial year ended 30 June 2007, primarily because we were able to increase the suggested retail price of our *361°* footwear due to the greater brand recognition of our *361°* brand. The average wholesale selling price of our *361°* footwear increased by 22.0% from RMB58.7 for the financial year ended 30 June 2007 to RMB71.6 for the financial year ended 30 June 2008, primarily due to the foregoing reasons and the fact that we were able to decrease the discounts to the suggested retail prices at which we sold our *361°* products to our customers due to the greater brand recognition of our *361°* brand. The average wholesale selling price of our *361°* footwear increased by 8.9% from RMB73.0 for the nine months ended 31 March 2008 to RMB79.5 for the nine months ended 31 March 2009, primarily due to the greater brand recognition of our *361°* brand and changes in our footwear product offerings.

The total number of pieces of our *361°* apparel sold increased by 6.6% from approximately 316,000 for the financial year ended 30 June 2006 to approximately 337,000 for the financial year ended 30 June 2007, primarily due to the increasing market demand for sportswear apparel and our strategy to diversify our *361°* branded product offerings. The total number of pieces of our *361°* apparel sold increased by approximately 25 times from approximately 337,000 for the financial year ended 30 June 2007 to 8.8 million for the financial year ended 30 June 2008, primarily because our apparel sales operation began to mature as evidenced by our ability to leverage the success of our *361°* footwear and the increased recognition of our *361°* brand in the PRC sportswear market. This increase was also due to the fact that we expanded our *361º* apparel product offerings as a result of an increase in the market acceptance of our *361º* apparel. The total number of pieces of our *361°* apparel sold increased by 267.6% from 5.5 million for the nine months ended 31 March 2008 to 20.2 million for the nine months ended 31 March 2009, primarily because we strategically sought to increase the portion of revenues contributed by our *361°* apparel as apparel generally has higher profit margins than our *361°* footwear.

The average wholesale selling price of our *361°* apparel increased slightly by 0.4% from RMB67.2 for the financial year ended 30 June 2006 to RMB67.5 for the financial year ended 30 June 2007. The average wholesale selling price of our *361°* apparel decreased by 26.8% from RMB67.5 for the financial year ended 30 June 2007 to RMB49.4 for the financial year ended 30 June 2008. This decrease was primarily because spring and summer *361°* apparel, such as T-shirts, which generally have lower average wholesale selling prices than autumn and winter *361°* apparel, such as jackets, comprised a larger portion of our revenues for the financial year ended 30 June 2008, as compared to the financial year ended 30 June 2007. In addition, we reduced the suggested retail price of our apparel during 2008 to pass on to our consumers the savings we enjoyed from lower outsourcing costs for manufacturing apparel over the period as our contract manufacturers reduced the prices they charged us as we increased our order volumes and to improve the price competitiveness of our apparel products. The decreases to average wholesale selling price caused by the decrease in suggested retail price were partially offset by the fact that we were able to decrease the discounts to the suggested retail price at which we sold our *361°* products to our customers over the period due to the greater brand recognition of our *361°* brand. The average wholesale selling price of our *361°* apparel increased by 35.1% from RMB45.2 for the nine months ended 31 March 2008 to RMB61.1 for the nine months ended 31 March 2009, primarily due to the greater brand recognition of our *361°* brand and the increase in our apparel product offerings with higher average wholesale selling prices, such as certain types of winter apparel and apparel for women.

We expanded our *361°* product line to include accessories in September 2007 to meet demand from consumers for *361°* accessories and to diversify our *361°* branded product offerings. The total number of pieces/pairs of our *361°* accessories sold for the financial year ended 30 June 2008 was 1.4 million and the average wholesale selling price for our *361°* accessories for the financial year ended 30 June 2008 was RMB6.8. The total number of pieces of our *361°* accessories sold for the nine months ended 31 March 2008 and 2009 was approximately 19,000 and 5.4 million, respectively. The average wholesale selling price for our *361°* accessories for the nine months ended 31 March 2008 and 2009 was RMB14.8 and RMB10.3, respectively.

Cost of sales

Substantially all of our cost of sales are incurred in sales of our *361°* products, consisting of footwear, apparel and accessories. In addition, a small portion of our cost of sales incurred during the Track Record Period related to the manufacture and sales of TPR and TPU pellets as well as sales of certain packaging materials. The following table sets forth a breakdown of our cost of sales for our *361°* products (excluding our cost of sales related to the manufacture and sales of TPR and TPU pellets as well as sales of certain packaging materials) during the Track Record Period:

	For the financial year ended 30 June						For the nine months ended 31 March			
	2006		2007		2008		2008		2009	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000 (unaudited)	%	RMB'000	%
***361°* Products**										
Footwear (internal production)										
Raw materials	124,175	53.1	164,399	56.4	452,026	47.0	316,870	49.1	388,061	23.8
Labour	31,210	13.3	32,256	11.1	48,300	5.0	36,350	5.6	55,054	3.4
Manufacturing costs	61,920	26.5	75,353	25.8	97,597	10.2	77,662	12.0	93,358	5.7
Subtotal	217,305	92.9	272,008	93.3	597,923	62.2	430,882	66.8	536,473	32.9
Footwear (outsourced)	—	—	2,233	0.7	62,419	6.5	43,021	6.7	261,003	16.0
Apparel (outsourced)	16,483	7.1	17,351	6.0	294,823	30.7	171,392	26.6	798,870	49.0
Accessories (outsourced)	—	—	—	—	5,651	0.6	197	0.03	33,659	2.1
Cost of sales for *361°* products	233,788	100.0	291,592	100.0	960,816	100.0	645,492	100.0	1,630,005	100.0

Our cost of sales for our *361°* products primarily consists of internal production costs and outsourced production costs. Internal production costs include raw materials costs, labour costs and manufacturing costs incurred in the self-production of our *361°* footwear. Raw materials costs refer to costs of procuring raw materials used in the internal production of our footwear products, such as leather, synthetic leather, fabrics, rubber, plastics and soles. Labour costs consist of salaries paid to production staff. Manufacturing costs mainly include salaries, bonuses and other compensation expenses paid to administrative staff involved in the manufacturing process, depreciation of production facilities, costs associated with operating our facilities, such as electricity, water and maintenance costs, the processing fees we paid to some of our contract manufacturers, sales tax and other miscellaneous costs associated with our manufacturing operations. Outsourced production cost refers to the costs of procuring finished footwear, apparel and accessories, which represent amounts paid to contract manufacturers.

Gross profit and gross profit margin

Substantially all of our gross profit relates to sales of our *361°* products, consisting of footwear, apparel and accessories. In addition, a small portion of our gross profit (loss) realised during the Track Record Period related to the manufacture and sales of TPR and TPU pellets as well as sales of certain packaging materials. Gross profit for our *361°* products is our revenues from sales of our *361°* products for the relevant period less the cost of sales for our *361°* products for the same period. The following table sets forth a breakdown of our gross profit and gross profit margin for our *361°* products (excluding our gross profit (loss) and gross profit (loss) margin related to the manufacture and sales of TPR and TPU pellets as well as sales of certain packaging materials) during the Track Record Period:

	For the financial year ended 30 June						For the nine months ended 31 March			
	2006		2007		2008		2008		2009	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000 (unaudited)	%	RMB'000	%
***361°* Products**										
Footwear	23,020	9.6	71,649	20.7	205,792	23.8	125,184	20.9	335,761	29.6
Apparel	4,746	22.4	5,388	23.7	137,914	31.9	76,819	30.9	434,072	35.2
Accessories	—	—	—	—	3,962	41.2	84	29.9	22,192	39.7
Total	**27,766**	**10.6**	**77,037**	**20.9**	**347,668**	**26.6**	**202,087**	**23.8**	**792,025**	**32.7**

Gross profit for our *361°* products increased by 177.5% from RMB27.8 million for the financial year ended 30 June 2006 to RMB77.0 million for the financial year ended 30 June 2007, and increased by 351.3% from RMB77.0 million for the financial year ended 30 June 2007 to RMB347.7 million for the financial year ended 30 June 2008, primarily due to the increases in sales. Gross profit margin for our *361°* products increased from 10.6% for the financial year ended 30 June 2006 to 20.9% for the financial year ended 30 June 2007, and increased further to 26.6% for the financial year ended 30 June 2008 because the rate of increase of our revenues outpaced the rate of increase in cost of sales. This was primarily due to the increases in average wholesale selling price of our *361°* footwear, which comprised the majority of our *361°* product sales, as a result of successful brand promotion, improved product design and the expansion of our range of product offerings. Gross profit margin for our *361°* products was also positively affected by the result of the shift in our product mix towards *361°* apparel and accessories, which on average have a higher gross profit margin than our *361°* footwear.

Gross profit for our *361°* products increased by 291.9% from RMB202.1 million for the nine months ended 31 March 2008 to RMB792.0 million for the nine months ended 31 March 2009, primarily due to the increases in sales. Gross profit margin for our *361°* products increased from 23.8% to 32.7% over the same period, primarily due to the shift in our product mix towards *361°* apparel and accessories, which on average have a higher gross profit margin than our *361°* footwear, as well as a reduction in outsourcing costs we achieved through economies of scale and deepening relationships we developed with our contract manufacturers. Gross profit margin for our *361°* products was also positively affected by the increases in average wholesale selling price of our *361°* apparel, which comprised the majority of our *361°* product sales for the nine months ended 31 March 2009, primarily as a result of the greater brand recognition of our *361°* brand and the increase in our apparel product offerings with higher average wholesale selling price, such as certain types of winter apparel and apparel for women.

Other revenue

Our other revenue primarily consists of government grants from the PRC Government and interest income. Government grants from the PRC Government refer to non-recurring government grants received from the PRC government authorities, such as the Financial Services Bureau of Jingjiang City (晉江市財政局), the Fujian Provincial Economic and Trade Commission (福建省經濟貿易委員會) and the Federation of Trade Union of Chendai Town, Jingjiang City (晉江市陳埭鎮總工會), as recognition for our contribution to the local economy through the development of our *361°* brand and technology. Such government grants are available to any enterprise which meets the requirements stipulated by the relevant government authorities. There are no continuing obligations or requirements for us or conditions in relation to the government grants. The amount of government grants received by us varied during the Track Record Period, primarily due to changes in the aggregate amount of government grants available for all enterprises, as well as the amount of government grants that we were qualified for, which in turn primarily depended on the underlying government policies during each of the financial years ended 30 June 2006, 2007 and 2008 and the nine months ended 31 March 2008 and 2009. Interest income is derived from interest received from bank deposits.

Other loss

Other loss for the financial year ended 30 June 2008 and the nine months ended 31 March 2009 relates to loss of RMB1.9 million and approximately RMB54,000, respectively, incurred on sales of footwear material equipment at a price lower than its net book value and disposal of other production equipment during the respective periods.

Selling and distribution expenses

Selling and distribution expenses primarily consist of advertising and marketing expenses, costs associated with conducting our sales fairs, costs of certain packaging materials, such as shoe boxes and shopping bags embossed with the *361°* logo that we provided to our distributors for use by authorised retailers in connection with sales of our *361°* products, and salary and travelling expenses for our marketing and sales staff. Advertising and marketing expenses include fees paid for television advertising and advertising billboards, fees paid to marketing consultants and sponsorship fees.

For the financial years ended 30 June 2006, 2007 and 2008, selling and distribution expenses were RMB10.0 million, RMB36.5 million and RMB106.4 million, respectively, representing 3.8%, 9.8% and 8.1% of our total revenues, respectively. For the nine months ended 31 March 2008 and 2009, selling and distribution expenses were RMB62.5 million and RMB286.3 million, respectively, representing 7.3% and 11.8% of our total revenues, respectively.

Administrative expenses

Administrative expenses primarily consist of salary for administrative staff (other than those involved in the production process), welfare and other benefits for all employees (including production staff), legal and professional fees, allowance for doubtful debts, entertainment expenses and depreciation expenses for our fixed assets. Salary for administrative staff includes wages, bonus and travelling expenses. Welfare and other benefits expenses include dormitory costs, training costs and the cost of other benefits for our employees. For the financial year ended 30 June 2008, we also incurred RMB10.0 million for our charitable donations, RMB5.9 million of which is a non-recurring expense for our charitable donations to relief organisations assisting victims of the Sichuan earthquake which occurred on 12 May 2008.

For the financial years ended 30 June 2006, 2007 and 2008, administrative expenses were RMB5.7 million, RMB12.7 million and RMB39.6 million, respectively, representing 2.2%, 3.4% and 3.0% of our total revenues, respectively. For the nine months ended 31 March 2008 and 2009, administrative expenses were RMB24.6 million and RMB68.2 million, respectively, representing 2.9% and 2.8% of our total revenues, respectively.

Finance costs

Our finance costs consist of interest on bank borrowings. For the financial years ended 30 June 2006, 2007 and 2008, finance costs were RMB1.3 million, RMB3.0 million and RMB5.4 million, respectively. For the nine months ended 31 March 2008 and 2009, finance costs were RMB3.5 million and RMB11.9 million, respectively.

Income tax

Income tax represents amounts of corporate income tax paid by us. No provision for Hong Kong profits tax has been made as we did not generate any assessable profit arising in Hong Kong during the Track Record Period. We were also not subject to any tax in the Cayman Islands and the BVI during the Track Record Period. However, our PRC subsidiaries were subject to PRC enterprise income tax. The following table sets forth the applicable PRC enterprise income tax rates during the Track Record Period for our PRC subsidiaries:

	For the financial year ended 30 June			For the nine months ended 31 March
	2006	2007	2008	2009
Sanliuyidu Fujian	12.0%(1)	12.0%	12.0%/12.5%(2)	12.5%/25%(3)
Sanliuyidu China	N/A	N/A	fully exempted	fully exempted
Sanliuyidu Xiamen	N/A	N/A	25.0%(4)	25.0%(4)

Notes:

(1) For the period between 1 July 2005 to 31 December 2005, Sanliuyidu Fujian was exempted from PRC enterprise income tax under the Old Tax Regime.

(2) For the period between 1 July 2007 to 31 December 2007, the applicable PRC enterprise income tax rate for Sanliuyidu Fujian under the Old Tax Regime was 12.0% after a 50.0% reduction of the enterprise income tax rate of 24.0%. For the six months ended 30 June 2008, the applicable PRC enterprise income tax rate for Sanliuyidu Fujian under the New Tax Law was 12.5% after a 50.0% reduction of the phased-in enterprise income tax rate of 25.0%.

(3) For the period between 1 July 2008 to 31 December 2008, the applicable PRC enterprise income tax rate for Sanliuyidu Fujian under the New Tax Law was 12.5% after a 50.0% reduction of the phased-in enterprise income tax rate of 25.0%. Since 1 January 2009, Sanliuyidu Fujian has no longer been entitled to any tax exemption and the applicable PRC enterprise income tax rate for Sanliuyidu Fujian under the New Tax Law has been the phased-in enterprise income tax rate of 25.0%.

(4) Sanliuyidu Xiamen was incorporated on 19 May 2008 and is not entitled to enjoy any tax exemption or reduction since its incorporation. It did not commence operations nor generate any assessable profit until September 2008 and has thereafter been subject to the phased-in enterprise income tax rate of 25%.

See "Factors affecting our financial condition and results of operations—Level of income tax and preferential tax treatment" in this section of the prospectus for additional details regarding taxation applicable to us.

The following table sets forth a reconciliation between our actual tax credit or expense and our profits before taxation during the Track Record Period:

	For the financial year ended 30 June			For the nine months ended 31 March	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Profit before taxation	10,987	26,305	197,172	112,865	430,718
National tax on profit before taxation, calculated at the rates applicable in the jurisdictions concerned	2,637	6,314	48,987	28,046	107,680
Tax effect of non-deductible expenses(1)	79	824	532	150	2,798
Tax effect of profit entitled to tax exemption in the PRC(2)	(2,735)	(3,744)	(31,320)	(17,987)	(43,965)
Actual tax (credit)/expense	(19)	3,394	18,199	10,209	66,513

Notes:

(1) "Tax effect of non-deductible expenses" mainly represents non-deductible entertainment expenses.

(2) "Tax effect of profit entitled to tax exemption in the PRC" represents difference in tax expenses currently required to be paid for income earned during the tax concession period and tax expenses for income earned should no tax concession is granted. For further details, please see note 5(iii) in the accountants' report set out in Appendix I to this prospectus.

PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

Nine Months Ended 31 March 2008 (unaudited) Compared to Nine Months Ended 31 March 2009

Revenues

Revenues increased by 183.9% from RMB853.7 million for the nine months ended 31 March 2008 to RMB2,423.7 million for the nine months ended 31 March 2009, primarily as a result of the following:

Sales of our 361° footwear

Revenues from sales of our *361°* footwear increased by 89.2% from RMB599.1 million for the nine months ended 31 March 2008 to RMB1,133.2 million for the nine months ended 31 March 2009, primarily because the total number of pairs of our *361°* footwear sold increased by 73.7% from 8.2 million for the nine months ended 31 March 2008 to 14.3 million for the nine months ended 31 March 2009. This increase in volume was primarily due to the successful promotion of our *361°* brand, rapid expansion of the *361°* retail network, improved product design, expansion of our range of product offerings, and our conversion to an exclusive distributorship business model. Increasing market demand for sportswear products and improving economic conditions in the PRC also contributed to our increase in volume. The increase in average wholesale selling price of our *361°* footwear also contributed to the increase in sales. The average wholesale selling price of our *361°* footwear increased by 8.9% from RMB73.0 for the nine months ended 31 March 2008 to RMB79.5 for the nine months ended 31 March 2009, primarily due to the greater brand recognition of our *361°* brand and changes in our footwear product offerings.

Sales of our 361° apparel

Revenues from sales of our *361°* apparel increased by 396.7% from RMB248.2 million for the nine months ended 31 March 2008 to RMB1,232.9 million for the nine months ended 31 March 2009, primarily because the total number of pieces of our *361°* apparel sold increased by approximately 267.6% from 5.5 million for the nine months ended 31 March 2008 to 20.2 million for the nine months ended 31 March 2009. This increase in volume was primarily because we strategically sought to increase the portion of revenues contributed by our *361°* apparel as apparel generally has higher profit margins than our *361°* footwear. This increase was also due to the fact that we expanded our *361°* apparel product offerings as a result of an increase in the market acceptance of our *361°*

apparel. The effect of those factors were partially offset by a decrease in average wholesale selling prices of our *361°* apparel during the same period. The average wholesale selling price of our *361°* apparel increased by 35.1% from RMB45.2 for the nine months ended 31 March 2008 to RMB61.1 for the nine months ended 31 March 2009, primarily due to the greater brand recognition of our *361°* brand and the increase in our apparel product offerings with higher average wholesale selling prices, such as certain types of winter apparel and apparel for women.

Sales of our 361° accessories

Sales of our *361°* accessories were RMB0.3 million and RMB55.9 million for the nine months ended 31 March 2008 and 2009, respectively. We expanded our *361°* product line to include accessories in September 2007 to meet demand from consumers for *361°* branded accessories and to diversify our *361°* branded product offerings. We believe that a comparative analysis of the sales of our *361°* accessories for the nine months ended 31 March 2008 and 2009 is not meaningful in view of the fact our *361°* accessories were only newly introduced to the market in September 2007.

Cost of sales

Cost of sales for our *361°* products increased by 152.5% from RMB645.5 million for the nine months ended 31 March 2008 to RMB1,630.0 million for the nine months ended 31 March 2009, primarily as a result of an increase in sales of our *361°* products. Our raw materials costs for internal footwear production increased by 22.5% from RMB316.9 million for the nine months ended 31 March 2008 to RMB388.1 million for the nine months ended 31 March 2009, primarily due to the increase in the number of pairs of footwear produced and the use of raw materials of higher quality. Labour costs for internal footwear production increased by 51.5% from RMB36.4 million for the nine months ended 31 March 2008 to RMB55.1 million for the nine months ended 31 March 2009, primarily because we increased the number of our employees engaged in internal production and incurred additional salary expenses due to salary increases. Internal footwear production manufacturing costs increased by 20.2% from RMB77.7 million for the nine months ended 31 March 2008 to RMB93.4 million for the nine months ended 31 March 2009, primarily because we expanded our manufacturing operations and increased the number of administrative staff involved in the production process. Outsourced production costs increased significantly by approximately 409.5% from RMB214.6 million for the nine months ended 31 March 2008 to RMB1,093.5 million for the nine months ended 31 March 2009, primarily because the volume of footwear, apparel and accessories we purchased from our contract manufacturers increased and the increased use of raw materials of higher quality for apparel and accessories.

Gross profit and gross profit margin

Gross profit for our *361°* products increased by 291.9% from RMB202.1 million for the nine months ended 31 March 2008 to RMB792.0 million for the nine months ended 31 March 2009, primarily due to the increases in sales. Gross profit margin for our *361°* products increased from 23.8% to 32.7% over the same period, primarily due to the shift in our product mix towards *361°* apparel and accessories, which on average have a higher gross profit margin than our *361°* footwear, as well as a reduction in outsourcing costs we achieved through economies of scale and deepening relationships we developed with our contract manufacturers. Gross profit margin for our *361°* products was also positively affected by the increases in average wholesale selling price of our *361°* apparel, which comprised the majority of our *361°* product sales for the nine months ended 31 March 2009, primarily as a result of the increase in our apparel product offerings with higher average selling prices, such as certain types of winter apparel and apparel for women.

Gross profit and gross profit margin for our 361° footwear

Gross profit for our *361°* footwear increased by 168.2% from RMB125.2 million for the nine months ended 31 March 2008 to RMB335.8 million for the nine months ended 31 March 2009. Gross profit margin for our *361°* footwear increased from 20.9% for the nine months ended 31 March 2008 to 29.6% for the nine months ended 31 March 2009 because the pace of growth of sales of our *361°* footwear outpaced the corresponding growth in cost of sales. This was primarily due to the reduction in outsourcing costs we achieved through economies of scale and deepening relationships we developed with our contract manufacturers and the increase in the average wholesale selling price of our *361°* footwear increased.

Gross profit and gross profit margin for our 361° apparel

Gross profit for our *361°* apparel increased by 465.1% from RMB76.8 million for the nine months ended 31 March 2008 to RMB434.1 million for the nine months ended 31 March 2009, primarily due to the increases in sales. Gross profit margin for our *361°* apparel increased from 30.9% for the nine months ended 31 March 2008 to 35.2% for the nine months ended 31 March 2009 because the pace of growth of sales of our *361°* apparel outpaced the corresponding growth in cost of sales. This was primarily due to the increases in average wholesale selling price of our *361°* apparel as the brand recognition of our *361°* brand increased and we increased our apparel product offerings with higher average selling prices, such as certain types of winter apparel and apparel for women.

Gross profit for our 361° accessories

Gross profit for our *361°* accessories were approximately RMB84,000 and RMB22.2 million for the nine months ended 31 March 2008 and 2009, respectively. Gross profit margin for our *361°* accessories were 29.9% and 39.7% for the nine months ended 31 March 2008 and 2009, respectively.

We believe that a comparative analysis of the gross profit and gross profit margin of our *361°* accessories for the nine months ended 31 March 2008 and 2009 is not meaningful in view of the fact our *361°* accessories were only newly introduced to the market in September 2007.

Other revenue

Other revenue for the financial year ended 31 March 2008 and the nine months ended 31 March 2009 were RMB1.0 million and RMB5.8 million, respectively, 82.4% and 81.5% of which related to receipt of government grants from the PRC Government, respectively.

Other loss

Other loss was approximately RMB54,000 for the nine months ended 31 March 2009, which was incurred on sales of footwear material equipment at a price lower than its net book value and disposal of other production equipment during the period.

Selling and distribution expenses

Selling and distribution expenses increased by 358.0% from RMB62.5 million for the nine months ended 31 March 2008 to RMB286.3 million for the nine months ended 31 March 2009, primarily as a result of a significant increase in our advertising and marketing expenses in relation to television advertising and sponsorships. Costs of shoe boxes and shopping bags embossed with the *361°* logo that we provided to our distributors for use by authorised retailers in connection with sales of our *361°* products also increased significantly as a result of increases in sales volume as well as the adoption of recycle shopping bags which are more expensive. In addition, costs associated with conducting our sales fairs increased because sale fairs were held in major cities such as Wuhan City and Xiamen City instead of our headquarters in Jinjiang City as in the periods prior to 2008. Selling and distribution expenses represented 11.8% of our total revenues for the nine months ended 31 March 2009, as compared to 7.3% of our total revenues for the nine months ended 31 March 2008. Going forward, we anticipate selling and distribution expenses to increase as our business grows because our advertising and marketing expenses will increase as we intend to, among other things, expand our event sponsorships and product tie-in arrangements to increase awareness of our *361°* brand.

Administrative expenses

Administrative expenses increased by 177.7% from RMB24.6 million for the nine months ended 31 March 2008 to RMB68.2 million for the nine months ended 31 March 2009, primarily due to increases in allowance for doubtful debts, and professional fees paid to an external design firm, as well as increases in salaries and welfare payments as we recruited more staff and the salary levels increased. We anticipate significant increases in administrative expenses going forward due to increased administrative staff costs as we continue to expand our operations and in connection with the needs of a listed company, increased professional fees in connection with becoming a listed company and increased expenditures on research and development to maintain our competitiveness in the sportswear industry.

Profit from operations

Profit from operations increased by 280.5% from RMB116.3 million for the nine months ended 31 March 2008 to RMB442.6 million for the nine months ended 31 March 2009, primarily due to the factors described above.

Finance costs

Finance costs increased by 243.7% from RMB3.5 million for the nine months ended 31 March 2008 to RMB11.9 million for the nine months ended 31 March 2009, primarily due to an increase in bank borrowings to fund our working capital needs. If we are required to increase bank borrowings to fund our expansion plans, or if interest rates increase, our finance expenses may increase.

Profit before taxation

Profit before taxation increased by 281.6% from RMB112.9 million for the nine months ended 31 March 2008 to RMB430.7 million for the nine months ended 31 March 2009, primarily due to the factors described above.

Income tax

Income tax expense increased significantly by 551.5% from RMB10.2 million for the nine months ended 31 March 2008 to RMB66.5 million for the nine months ended 31 March 2009, primarily due to the increase in profit before taxation as a result of increased sales as well as the increase in applicable tax rate of Sanliuyidu Fujian, which increased from 12.0% for the period between July 2007 to December 2007 to 12.5% for the period between July 2008 to December 2008 and, upon expiry of exemption from the enterprise income tax, further increased to 25.0% since January 2009. The effective tax rate increased from 9.0% for the nine months ended 31 March 2008 to 15.4% for the nine months ended 31 March 2009, primarily due to the same reason as described above.

Profit for the period

Net profit increased significantly by 254.8% from RMB102.7 million for the nine months ended 31 March 2008 to RMB364.2 million for the nine months ended 31 March 2009, primarily due to the factors described above. Our net profit margin increased from 12.0% for the nine months ended 31 March 2008 to 15.0% for the nine months ended 31 March 2009, primarily due to the foregoing reasons.

Financial Year Ended 30 June 2007 Compared to Financial Year Ended 30 June 2008

Revenues

Revenues increased by 252.8% from RMB373.3 million for the financial year ended 30 June 2007 to RMB1,317.1 million for the financial year ended 30 June 2008, primarily as a result of the following:

Sales of our 361° footwear

Revenues from sales of our *361*° footwear increased by 150.4% from RMB345.9 million for the financial year ended 30 June 2007 to RMB866.1 million for the financial year ended 30 June 2008, primarily because the total number of pairs of our *361*° footwear sold increased by 105.4% from 5.9 million for the financial year ended 30 June 2007 to 12.1 million for the financial year ended 30 June 2008. This increase in volume was primarily due to the successful promotion of our *361*° brand, rapid expansion of the *361*° retail network, improved product design, expansion of our range of product offerings, and our conversion to an exclusive distributorship business model. Increasing market demand for sportswear products and improving economic conditions in the PRC also contributed to our increase in volume. The increase in average wholesale selling price of our *361*° footwear also contributed to the increase in sales. The average wholesale selling price of our *361*° footwear increased by 22.0% from RMB58.7 for the financial year ended 30 June 2007 to RMB71.6 for the financial year ended 30 June 2008, primarily because we were able to decrease the discounts to the suggested retail prices at which we sold our *361*° products to our customers and to increase the suggested retail price of our *361*° footwear, both due to the greater brand recognition of our *361*° brand.

Sales of our 361° apparel

Revenues from sales of our *361*° apparel increased by approximately 18 times from RMB22.7 million for the financial year ended 30 June 2007 to RMB432.7 million for the financial year ended 30 June 2008, primarily because the total number of pieces of our *361*° apparel sold increased by approximately 25 times from approximately 337,000 for the financial year ended 30 June 2007 to 8.8 million for the financial year ended 30 June 2008. This increase in volume was primarily because our apparel sales operation began to mature as evidenced by our ability to leverage the success of our footwear products and the increased recognition of our *361*° brand in the PRC sportswear market. This increase was also due to the fact that we expanded our *361º* apparel product offerings as a result of an increase in the market acceptance of our *361*° apparel. The effect of those factors was partially offset by a decrease in average wholesale selling price of our *361*° apparel during the same period. The average wholesale selling price of our *361*° apparel decreased by 26.8% from RMB67.5 for the financial year ended 30 June 2007 to RMB49.4 for the financial year ended 30 June 2008, primarily because spring and summer *361*° apparel, such as T-shirts, which generally have lower average wholesale selling price than autumn and winter *361*° apparel, such as jackets, comprised a larger portion of our *361*° apparel sales for the financial year ended 30 June 2008 as a result of an increase in the market acceptance of our spring and summer *361*° apparel, as compared to the financial year ended 30 June 2007. In addition, we reduced the suggested retail prices of our apparel to pass on to our consumers the savings we enjoyed from lower manufacturing costs and to improve the pricing competitiveness of our products. Our outsourcing costs for manufacturing apparel decreased over the period due to our contract manufacturers reducing the prices they charged us as we increased our order volumes. The decreases to average wholesale selling price caused by the decreases in suggested retail prices were partially offset by the fact that we were able to decrease the discounts to the suggested retail prices at which we sold our *361*° apparel to our customers over the period due to the greater brand recognition of our *361*° brand.

Sales of our 361° accessories

Revenues from sales of our *361*° accessories was RMB9.6 million for the financial year ended 30 June 2008. We expanded our *361*° product line to include accessories in September 2007 to meet demand from consumers for *361*° branded accessories and to diversify our *361*° branded product offerings.

Cost of sales

Cost of sales for our *361°* products increased by 229.5% from RMB291.6 million for the financial year ended 30 June 2007 to RMB960.8 million for the financial year ended 30 June 2008, primarily as a result of an increase in sales of our *361°* products. Our raw materials costs for internal footwear production increased by 175.0% from RMB164.4 million for the financial year ended 30 June 2007 to RMB452.0 million for the financial year ended 30 June 2008, primarily due to the significant increase in the number of pairs of footwear produced as well as increased costs of raw materials, such as fabrics and leather, during this period. Labour costs for internal footwear production increased by 49.7% from RMB32.3 million for the financial year ended 30 June 2007 to RMB48.3 million for the financial year ended 30 June 2008, primarily because we increased the number of our employees engaged in internal production and incurred additional salary expenses due to increases in salary levels. Internal footwear production manufacturing costs increased by 29.5% from RMB75.4 million for the financial year ended 30 June 2007 to RMB97.6 million for the financial year ended 30 June 2008, primarily because we expanded our manufacturing operations and increased the number of administrative staff involved in the production process. Outsourced production costs increased by approximately 18 times from RMB19.6 million for the financial year ended 30 June 2007 to RMB362.9 million for the financial year ended 30 June 2008, primarily because we began to outsource the production of a portion of our *361°* footwear in April 2007 and the volume of apparel we purchased from our contract manufacturers increased.

Gross profit and gross profit margin

Gross profit for our *361°* products increased by 351.3% from RMB77.0 million for the financial year ended 30 June 2007 to RMB347.7 million for the financial year ended 30 June 2008, primarily due to the increases in sales. Gross profit margin for our *361°* products increased from 20.9% to 26.6% over the same period because the rate of increase of our revenues outpaced the rate of increase in cost of sales. This was primarily due to the increases in average wholesale selling price of our *361°* footwear, which comprised the majority of our *361°* product sales, as a result of successful brand promotion, improved product design and the expansion of our range of product offerings. In addition, the increased number of products sold also enabled us to achieve economies of scale with respect to internal manufacturing costs for our *361°* footwear and outsourcing costs for our *361°* apparel. Gross profit margin for our *361°* products also increased as a result of the shift in our product mix towards our *361°* apparel and accessories, which on average have a higher gross profit margin than our *361°* footwear.

Gross profit and gross profit margin for our 361° footwear

Gross profit for our *361°* footwear increased by 187.2% from RMB71.6 million for the financial year ended 30 June 2007 to RMB205.8 million for the financial year ended 30 June 2008. Gross profit margin for our *361°* footwear increased from 20.7% for the financial year ended 30 June 2007 to 23.8% for the financial year ended 30 June 2008 because the pace of growth of sales of our *361°* footwear outpaced the corresponding growth in cost of sales. This was primarily due to economies of scale achieved in our self-production process as our sales volume increased and the increase in the average wholesale selling price of our *361°* footwear.

Gross profit and gross profit margin for our 361° apparel

Gross profit for our *361°* apparel increased by approximately 25 times from RMB5.4 million for the financial year ended 30 June 2007 to RMB137.9 million for the financial year ended 30 June 2008, primarily due to the increases in sales. Gross profit margin for our *361°* apparel increased from 23.7% for the financial year ended 30 June 2007 to 31.9% for the financial year ended 30 June 2008 because the pace of growth of sales of our *361°* apparel outpaced the corresponding growth in cost of sales. This was primarily due to economies of scale achieved in our outsourcing costs, which was driven by our contract manufacturers reducing the prices they charged us as the volume of our orders increased.

Gross profit for our 361° accessories

We had no sales of *361°* accessories during the financial year ended 30 June 2007. Gross profit and gross profit margin for our *361°* accessories were RMB4.0 million and 41.2% for the financial year ended 30 June 2008, respectively.

Other revenue

Other revenue increased by 55.1% from RMB1.6 million for the financial year ended 30 June 2007 to RMB2.5 million for the financial year ended 30 June 2008, primarily due to the increase in the receipt of government grants from the PRC Government which accounted for 84.6% and 85.3% of the total other revenue for the financial years ended 30 June 2007 and 2008, respectively.

Other loss

Other loss was RMB1.9 million for the financial year ended 30 June 2008, which was incurred as a result of sales of footwear material equipment at a lower price than its net book value and disposal of other production equipment during the year.

Selling and distribution expenses

Selling and distribution expenses increased by 191.7% from RMB36.5 million for the financial year ended 30 June 2007 to RMB106.4 million for the financial year ended 30 June 2008, primarily as a result of a significant increase in our advertising and marketing expenses in relation to television advertising and fees paid to marketing consultants, costs associated with conducting our sales fairs and costs of shoe boxes and shopping bags embossed with the *361°* logo that we provided to our distributors for use by authorised retailers in connection with sales of our *361°* products. Such increases were partially offset by the fact that we only had to manage a relatively small number of customers under our exclusive distributorship business model compared to hundreds of customers under the previous business model. Selling and distribution expenses represented 8.1% of our total revenues for the financial year ended 30 June 2008, as compared to 9.8% of our total revenues for the financial year ended 30 June 2007.

Administrative expenses

Administrative expenses increased by 211.8% from RMB12.7 million for the financial year ended 30 June 2007 to RMB39.6 million for the financial year ended 30 June 2008, primarily due to increases in charitable donations, allowance for doubtful debts, and professional fees paid to an external design firm, as well as increases in salaries and welfare payments as we recruited more staff, in particular, senior staff whose salary levels were higher.

Profit from operations

Profit from operations increased by 590.5% from RMB29.3 million for the financial year ended 30 June 2007 to RMB202.5 million for the financial year ended 30 June 2008, primarily due to the factors described above.

Finance costs

Finance costs increased by 77.5% from RMB3.0 million for the financial year ended 30 June 2007 to RMB5.4 million for the financial year ended 30 June 2008, primarily due to an increase in bank borrowings and increases in interest rates.

Profit before taxation

Profit before taxation increased by 649.6% from RMB26.3 million for the financial year ended 30 June 2007 to RMB197.2 million for the financial year ended 30 June 2008, primarily due to the factors described above.

Income tax

Income tax expense increased significantly by 436.2% from RMB3.4 million for the financial year ended 30 June 2007 to RMB18.2 million for the financial year ended 30 June 2008, primarily due to the increase in profit before taxation as a result of increased sales as well as the increase in applicable tax rate of Sanliuyidu Fujian, which increased to 12.5% for the period between January 2008 to June 2008 from 12.0% for the period between July 2006 to December 2007. The effective tax rate decreased from 12.9% for the financial year ended 30 June 2007 to 9.2% for the financial year ended 30 June 2008, primarily due to the contribution of Sanliuyidu China (which did not commence operations until December 2007 and was fully exempt from PRC income tax for the financial year ended 30 June 2008) to our Group's profit before taxation for the financial year ended 30 June 2008 compared to the financial year ended 30 June 2007.

Profit for the year

Net profit increased significantly by 681.2% from RMB22.9 million for the financial year ended 30 June 2007 to RMB179.0 million for the financial year ended 30 June 2008, primarily due to the factors described above. Our net profit margin increased from 6.1% for the financial year ended 30 June 2007 to 13.6% for the financial year ended 30 June 2008, primarily due to the foregoing reasons.

Financial Year Ended 30 June 2006 Compared to Financial Year Ended 30 June 2007

Revenues

Revenues increased by 42.0% from RMB262.9 million for the financial year ended 30 June 2006 to RMB373.3 million for the financial year ended 30 June 2007, primarily as a result of the following:

Sales of our 361° footwear

Revenues from sales of our *361°* footwear increased by 43.9% from RMB240.3 million for the financial year ended 30 June 2006 to RMB345.9 million for the financial year ended 30 June 2007, primarily because the total number of pairs of our *361°* footwear sold increased by 18.4% from 5.0 million for the financial year ended 30 June 2006 to 5.9 million for the financial year ended 30 June 2007. This increase in volume was primarily due to successful promotion of our *361°* brand, rapid expansion of the *361°* retail network, improved product design and expansion of our range of product offerings. The increase in average wholesale selling price of our *361°* footwear also contributed to the increase in sales. The average wholesale selling price of our *361°* footwear increased by 21.5% from RMB48.3 for the financial year ended 30 June 2006 to RMB58.7 for the financial year ended 30 June 2007, primarily because we were able to increase the suggested retail price of our *361°* footwear due to the greater brand recognition of our *361°* brand.

Sales of our 361° apparel

Revenues from sales of our *361°* apparel increased by 7.1% from RMB21.2 million for the financial year ended 30 June 2006 to RMB22.7 million for the financial year ended 30 June 2007, primarily because the total number of pieces of *361°* apparel sold increased by 6.6% from approximately 316,000 for the financial year ended 30 June 2006 to approximately 337,000 for the financial year ended 30 June 2007. This increase in volume was primarily due to the increased market demand for our *361°* apparel and our strategy to diversify our *361°* branded product offerings. The increase in average wholesale selling price of our *361°* apparel also contributed to the increase in sales. The average wholesale selling price of our *361°* apparel increased slightly by 0.4% from RMB67.2 for the financial year ended 30 June 2006 to RMB67.5 for the financial year ended 30 June 2007.

Cost of sales

Cost of sales for our *361°* products increased by 24.7% from RMB233.8 million for the financial year ended 30 June 2006 to RMB291.6 million for the financial year ended 30 June 2007, primarily as a result of an increase in sales. Our raw materials costs for internal footwear production increased by 32.4% from RMB124.2 million for the financial year ended 30 June 2006 to RMB164.4 million for the financial year ended 30 June 2007, primarily because the number of pairs of footwear produced and sold increased during this period. Labour costs for internal footwear production increased by 3.4% from RMB31.2 million for the financial year ended 30 June 2006 to RMB32.3 million for the financial year ended 30 June 2007, primarily because we increased the number of our employees engaged in internal production and the salary level increased. Internal footwear manufacturing costs increased by 21.7% from RMB61.9 million for the financial year ended 30 June 2006 to RMB75.4 million for the financial year ended 30 June 2007, primarily because we expanded our manufacturing operations and the increase in number of administrative staff involved in the production process. Outsourced production costs increased by 18.8% from RMB16.5 million for the financial year ended 30 June 2006 to RMB19.6 million for the financial year ended 30 June 2007, primarily due to the footwear outsourcing costs we first began to incur in 2007 and the increased number of pieces of apparel we purchased from our contract manufacturers.

Gross profit and gross profit margin

Gross profit for our *361°* products increased by 177.5% from RMB27.8 million for the financial year ended 30 June 2006 to RMB77.0 million for the financial year ended 30 June 2007, primarily due to the increase in sales. Gross profit margin for our *361°* products increased from 10.6% to 20.9% over the same period because the rate of increase of our revenue outpaced the rate of increase in cost of sales. This was primarily due to the increases in average wholesale selling price of our *361°* footwear, which comprised the majority of our *361°* product sales, as a result of successful brand promotion, improved product design and expansion of our range of product offerings. In addition, the increased number of products sold also enabled us to achieve economies of scale with respect to internal manufacturing costs.

Gross profit and gross profit margin for our 361° footwear

Gross profit for our *361°* footwear increased by 211.2% from RMB23.0 million for the financial year ended 30 June 2006 to RMB71.6 million for the financial year ended 30 June 2007. Gross profit margin for our *361°* footwear increased from 9.6% for the financial year ended 30 June 2006 to 20.7% for the financial year ended 30 June 2007 because the pace of growth of sales of our *361°* footwear outpaced the corresponding growth in cost of sales. This was primarily due to economies of scale achieved in our self-production process as our sales volume increased and the increase in the average wholesale selling price of our *361°* footwear.

Gross profit and gross profit margin for our 361° apparel

Gross profit for our *361°* apparel increased by 13.5% from RMB4.7 million for the financial year ended 30 June 2006 to RMB5.4 million for the financial year ended 30 June 2007. Gross profit margin for our *361°* apparel increased from 22.4% for the financial year ended 30 June 2006 to 23.7% for the financial year ended 30 June 2007 because the pace of growth of sales of our *361°* apparel outpaced the corresponding growth in cost of sales. This was primarily due to the increase in sales of our *361°* apparel as a result of the increasing market demand for our *361°* apparel and our strategy to diversify our *361°* branded product offerings, as well as a decrease in per unit cost of our *361°* apparel from RMB52.2 in 2006 to RMB51.5 in 2007 as a result of economies of scale achieved in our outsourcing costs, which was driven by our contract manufacturers reducing the prices they charged us as the volume of our orders increased.

Other revenue

Other revenue increased by 93.1% from approximately RMB824,000 for the financial year ended 30 June 2006 to RMB1.6 million for the financial year ended 30 June 2007, primarily due to an increase in the receipt of government grant income from the PRC Government which accounted for 82.5% and 84.6% of the other revenue for the financial years ended 30 June 2006 and 2007, respectively.

Selling and distribution expenses

Selling and distribution expenses increased by 265.7% from RMB10.0 million for the financial year ended 30 June 2006 to RMB36.5 million for the financial year ended 30 June 2007, primarily due to an increase in advertising and marketing expenses as a result of increased advertising and marketing activities to promote our brand. Selling and distribution expenses represented 9.8% of our total revenues for the financial year ended 30 June 2007, as compared to 3.8% of our total revenues for the financial year ended 30 June 2006.

Administrative expenses

Administrative expenses increased by 124.0% from RMB5.7 million for the financial year ended 30 June 2006 to RMB12.7 million for the financial year ended 30 June 2007, primarily due to increases in salaries and welfare payments as we increased salary levels and the number of employees, charitable donations, travelling expenses of our employees for attending trade shows and conferences, entertainment expenses and allowance for doubtful debts.

Profit from operations

Profit from operations increased by 139.7% from RMB12.2 million for the financial year ended 30 June 2006 to RMB29.3 million for the financial year ended 30 June 2007, primarily due to the factors described above.

Finance costs

Finance costs increased by 142.1% from RMB1.3 million for the financial year ended 30 June 2006 to RMB3.0 million for the financial year ended 30 June 2007, primarily due to an increase in the amount of bank borrowings.

Profit before taxation

Profit before taxation increased by 139.4% from RMB11.0 million for the financial year ended 30 June 2006 to RMB26.3 million for the financial year ended 30 June 2007, primarily due to the factors described above.

Income tax

Income tax changed from income tax credit of approximately RMB19,000 for the financial year ended 30 June 2006 to income tax expense of RMB3.4 million for the financial year ended 30 June 2007, primarily due to an increase in profit before tax. The effective tax rate for the financial year ended 30 June 2006 was negative because we were entitled to a tax exemption of RMB2.7 million that was greater than the notional tax payable of RMB2.6 million for the financial year ended 30 June 2006. The notional tax of RMB2.6 million for the financial year ended 30 June 2006 comprises income tax provision for the year of approximately RMB855,000, deferred tax credit arising from allowance for doubtful debt during the year of approximately RMB874,000, tax effect of profits entitled to exemption of RMB2.7 million and tax effect of non-deductible expense of approximately RMB79,000. The tax effect of profits entitled to exemption of RMB2.7 million included both tax effect of the profits earned during the year which were exempted from income tax as well as tax effect of the difference in tax rate at the time when the deferred tax assets were recognised (i.e. 12.0%) and the tax rate at the time when the deferred tax assets are expected to realise (i.e. 25.0%). See "Factors affecting our financial condition and results of operations—Level of income tax and preferential tax treatment" and " Principal income statement components—Income tax" in this section of the prospectus for additional details regarding taxation applicable to us. The effective tax rate increased from -0.2% for the financial year ended 30 June 2006 to 12.9% for the financial year ended 30 June 2007, primarily because Sanliuyidu Fujian, the only operating subsidiary at the relevant time, was fully exempt from PRC income tax for the period from 1 July 2005 to 31 December 2005 and was subject to a PRC enterprise income tax rate of 12.0% from 1 January 2006 to 31 December 2007.

Profit for the year

Net profit increased by 108.2% from RMB11.0 million for the financial year ended 30 June 2006 to RMB22.9 million for the financial year ended 30 June 2007, primarily due to the factors described above. Our net profit margin increased from 4.2% for the financial year ended 30 June 2006 to 6.1% for the financial year ended 30 June 2007, primarily due to the foregoing reasons.

LIQUIDITY AND CAPITAL RESOURCES

Our primary uses of cash are for payment of purchases from suppliers and contract manufacturers, our various operating expenses and capital expenditure needs. We have historically financed our liquidity requirements primarily through bank loans, shareholders' capital contributions and shareholder loans. There have been no material changes in our underlying drivers of the sources and uses of cash during the Track Record Period.

Going forward, we believe our liquidity requirements will be satisfied using a combination of the proceeds from the Global Offering, cash generated from operating activities and bank loans. We will use part of the proceeds from the Global Offering to fulfil our capital commitments for future expansion and, based on our current and anticipated levels of operations and conditions in the markets and industry, we believe that we have the ability to generate adequate cash from our operations to fund our ongoing operating cash needs and the continuing expansion of our business. We may use short-term bank borrowings to finance operations and repay bank borrowings once our funding position is in surplus. It is our policy to monitor regularly our liquidity requirements and compliance with debt covenants (if any) to ensure that we maintain sufficient resources of cash and adequate debt or equity financing. We have not experienced and do not expect to experience any difficulties meeting our obligations as they become due. However, our ability to fund our working capital needs, repay our indebtedness and finance other obligations depends on our future operating performance and cash flow, which are in turn subject to prevailing economic conditions, the level of spending by our customers and other factors, many of which are beyond our control. Any future significant acquisition or expansion may require additional capital, and we cannot assure you that such capital will be available to us on acceptable terms, if at all. See "Risk Factors—Our ability to obtain additional financing may be limited, which could delay or prevent the completion of one or more of our strategies".

We had net cash used in operating activities for the financial years ended 30 June 2006 and 2007, primarily due to increases in our trade and other receivables, inventories and amounts due from related parties. Please refer to the risk factor headed "We recorded negative operating cash flow for the two financial years ended 30 June 2006 and 2007, and recorded positive operating cash flow for the financial year ended 30 June 2008 and the nine months ended 31 March 2009, and may not be able to continue to record positive operating cash flow in the future" under the section "Risk Factors—Risks relating to our business" for the relevant disclosure.

The following table is a condensed summary of our combined cash flow statements for the periods indicated:

	For the financial year ended 30 June			For the nine months ended 31 March	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Net cash (used in)/generated from operating activities	(39,868)	(52,540)	4,734	(7,685)	162,483
Net cash used in investing activities	(5,113)	(9,378)	(121,487)	(44,177)	(149,660)
Net cash generated from financing activities	49,337	73,696	202,101	116,991	8,122
Net increase in cash and cash equivalents	4,356	11,778	85,348	65,129	20,945
Cash and cash equivalents at end of the year/period	11,769	23,547	108,895	88,676	129,840

Cash Flow from Operating Activities

We derive our cash generated from operating activities principally from the receipt of payments for the sale of our *361°* products. Our cash used in operating activities is principally for purchases of raw materials, payment of outsourcing fees, salary payments, advertising and marketing expenses and other operating expenses.

For the nine months ended 31 March 2009, we had an operating profit before changes in working capital but after adjustments for non-cash expenses and income of RMB449.9 million and net cash of RMB162.5 million generated from operating activities. The difference of RMB287.4 million was attributable to an increase in trade and other receivables of RMB939.9 million, primarily due to increased sales volume and the expansion of our distribution network. Such cash used in operating activities was partially offset by (i) an increase in trade and other payables of RMB579.9 million, primarily due to an increase in sales volume, and (ii) a decrease in inventories of RMB49.4 million primarily due to improved inventory control and the stock clearance as a result of the relocation of our warehouse in March 2009.

For the nine months ended 31 March 2008, we had an operating profit before changes in working capital but after adjustments for non-cash expenses and income of RMB126.1 million and net cash of RMB7.7 million used in operating activities. The difference of RMB133.8 million was attributable to an increase in trade and other receivables of RMB383.0 million and an increase in inventories of RMB53.6 million, both primarily due to increased sales volume. Such cash used in operating activities was partially offset by an increase in trade and other payables of RMB223.7 million, primarily due to an increase in sales volume and a decrease in amounts due from related parties of RMB87.2 million relating to advance payments made to certain related parties in connection with the purchase of land and building for our production and administrative functions.

For the financial year ended 30 June 2008, we had an operating profit before changes in working capital but after adjustments for non-cash expenses and income of RMB215.7 million and net cash of RMB4.7 million generated from operating activities. The difference of RMB211.0 million was attributable to an increase in trade and other receivables of RMB535.4 million and an increase in inventories of RMB112.1 million, both primarily due to increased sales volume. Such cash used in operating activities was partially offset by an increase in trade and other payables of RMB378.1 million, primarily due to an increase in sales volume, and a decrease in amounts due from related parties of RMB68.5 million relating to advance payments made to certain related parties in connection with the purchase of land and buildings for our production and administrative functions.

For the financial year ended 30 June 2007, we had an operating profit before changes in working capital but after adjustments for non-cash expenses and income of RMB33.9 million and net cash of RMB52.5 million used in operating activities. The difference of RMB86.4 million was attributable to an increase in trade and other receivables of RMB45.1 million, an increase in inventories of RMB33.7 million, both primarily due to increased sales volume, and an increase in amounts due from related parties of RMB7.6 million relating to advance payments made to certain related parties in connection with the purchase of land and building for our production and administrative functions. Such cash used in operating activities was partially offset by an increase in trade and other payables of RMB2.3 million, primarily due to increased sales volume.

For the financial year ended 30 June 2006, we had an operating profit before changes in working capital but after adjustments for non-cash expenses and income of RMB14.8 million and net cash of RMB39.9 million used in operating activities. The difference of RMB54.7 million was attributable to an increase in trade and other receivables of RMB68.5 million, primarily due to increased sales volume, an increase in amounts due from related parties of RMB42.5 million, primarily due to advance payments made to certain related parties in connection with the purchase of land and building for our production and administrative functions, and an increase in inventories of RMB20.6 million, primarily due to increased sales volume. Such cash used in operating activities was partially offset by an increase in trade and other payables of RMB77.4 million, primarily due to increased sales volume.

Cash Flow from Investing Activities

We derive our cash generated from investing activities principally from interest received on bank deposits. Our cash used in investing activities is principally for purchasing fixed assets and making pledged time deposits relating to our bills payable which requires that we have on deposit with our banks a certain percentage of the bills payable that are issued by them at our request.

For the nine months ended 31 March 2009, we had net cash used in investing activities of RMB149.7 million, which was primarily due to payment for purchases of fixed assets of RMB97.6 million, primarily consisting of property, plant and equipment, and an increase in pledged bank deposits of RMB53.2 million, partially offset by interest received of RMB1.1 million.

For the nine months ended 31 March 2008, we had net cash used in investing activities of RMB44.2 million, which was primarily due to payment for purchases of fixed assets of RMB41.8 million, primarily consisting of property, plant and equipment, and an increase in pledged bank deposits of RMB2.6 million partially offset by interest received of approximately RMB181,000.

For the financial year ended 30 June 2008, we had net cash used in investing activities of RMB121.5 million, which was primarily due to payment for purchases of fixed assets of RMB98.0 million, primarily consisting of property, plant and equipment, and an increase in pledged bank deposits of RMB25.9 million, partially offset by proceeds from disposal of fixed assets of RMB2.1 million.

For the financial year ended 30 June 2007, we had net cash used in investing activities of RMB9.4 million, which was primarily due to payment for purchases of fixed assets of RMB6.6 million and an increase in pledged bank deposits of RMB3.0 million, partially offset by interest received of approximately RMB245,000.

For the financial year ended 30 June 2006, we had net cash used in investing activities of RMB5.1 million, which was primarily due to payment for purchases of fixed assets of RMB2.3 million and an increase in pledged bank deposits of RMB3.0 million, partially offset by interest received of approximately RMB144,000.

Cash Flow from Financing Activities

We derive our cash generated from financing activities principally from proceeds from new bank loans, shareholder loans and proceeds from capital injection. Our cash used in financing activities is principally for repayment of bank loans and interest payments.

For the nine months ended 31 March 2009, we had net cash generated from financing activities of RMB8.1 million, which was primarily due to proceeds from bank loans of RMB265.5 million, partially offset by repayment of bank loans of RMB188.0 million, a decrease in amounts due to a shareholder of the Company of RMB12.2 million and dividends paid of RMB45.3 million.

For the nine months ended 31 March 2008, we had net cash generated from financing activities of RMB117.0 million, which was primarily due to proceeds from bank loans of RMB64.0 million and an increase in amounts due to a shareholder of the Company of RMB105.4 million, partially offset by repayment of bank loans of RMB49.0 million.

For the financial year ended 30 June 2008, we had net cash generated from financing activities of RMB202.1 million, which was primarily due to proceeds from bank loans of RMB149.5 million and an increase in amounts due to a shareholder of the Company of RMB118.0 million, which were partially offset by repayment of bank loans of RMB60.0 million.

For the financial year ended 30 June 2007, we had net cash generated from financing activities of RMB73.7 million, which was primarily due to proceeds from bank loans of RMB72.0 million, proceeds from capital injection of RMB30.6 million and an increase in amounts due to a shareholder of RMB29.1 million, which were partially offset by repayment of bank loans of RMB55.0 million.

For the financial year ended 30 June 2006, we had net cash generated from financing activities of RMB49.3 million, which was primarily due to proceeds from bank loans of RMB60.0 million and proceeds from capital injection of RMB17.6 million, which were partially offset by repayment of bank loans of RMB27.0 million.

CAPITAL EXPENDITURES

We have historically funded our capital expenditures from proceeds from bank loans, shareholder loans and capital contributions by our Shareholders. Our capital expenditures have principally consisted of expenditures on property, plant, equipment, and land use rights. We expect to continue to make significant capital expenditures for the financial year ending 30 June 2009 for the acquisition of land use rights and construction for a new production facility and warehouse at the Wuli Industrial Park Phase One, a new production facility at the Jiangtou Industrial Park and a new corporate headquarters at the Huli Technology and Industrial Park. The following table sets forth a breakdown of our capital expenditures during the Track Record Period:

	For the financial year ended 30 June			For the nine months ended 31 March
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Property, plant and equipment	1,190	970	69,268	8,936
Construction in progress	—	—	10,636	67,129
Land use rights	—	22,267	1,671	64,412
Total	1,190	23,237	81,575	140,477

Our capital expenditures for the financial years ended 30 June 2006, 2007 and 2008 and the nine months ended 31 March 2009 consisted of expenditures on property, plant and equipment, construction in progress and land use rights. Our capital expenditures increased by approximately 19 times from RMB1.2 million for the financial year ended 30 June 2006 to RMB23.2 million for the financial year ended 30 June 2007, primarily due to an increase of RMB22.3 million in purchase of land use rights for the new production facility and warehouse at the Wuli Industrial Park Phase One as well as the existing production facilities at the Jiangtou Industrial Park. Our capital expenditures increased by 251.1% to RMB81.6 million for the financial year ended 30 June 2008 as compared to the financial year ended 30 June 2007, primarily due to an increase of RMB68.3 million in purchase of property, plant and equipment as well as an increase of RMB10.6 million in construction in progress for the new production facility and warehouse at the Wuli Industrial Park Phase One. For the nine months ended 31 March 2009, we spent RMB8.9 million in purchase of property, plant and equipment for new production facility, RMB67.1 million in construction in progress for the new production facility and warehouse at the Wuli Industrial Park Phase One and RMB64.4 million in land use rights for Wuli Industrial Park Phase One and Huli Technology and Industrial Park.

The following table sets forth our projected capital expenditures for the financial year ending 30 June 2009, which includes the acquisition of land use rights and construction for Wuli Industrial Park Phase One, Wuli Industrial Park Phase Two, Jiangtou Industrial Park and Huli Technology and Industrial Park:

	For the financial year ending 30 June
	2009
	RMB'000
Property, plant and equipment	11,467
Construction in progress (Property, plant and equipment)	70,943
Land use rights	64,412
Total	146,822

Contractual obligations

The following table sets forth the aggregate amounts of our contractual obligations on a combined basis as of 30 June 2006, 2007 and 2008 and 31 March 2009:

	As of 30 June			As of 31 March
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Contracted for commitment in respect of:				
Construction of new factory buildings	—	—	37,474	11,688
Acquisition of land use rights	—	2,118	43,357	2,118
Advertising and marketing expenses	5,317	79,955	28,380	764,928
Total	5,317	82,073	109,211	778,734

The contractual commitments as of 31 March 2009 were primarily related to advertising and marketing expenses in relation to our sponsorship for sportswear products for CCTV Channels 5 (sports channel)'s reporters and journalists and our sponsorship provided as a Guangzhou 2010 Asian Games sportswear prestige partner (廣州2010年亞運會體育服裝高級合作夥伴). We expect to finance the above capital expenditures and commitments primarily through a combination of the proceeds from this Global Offering, cash generated from operating activities and bank loans.

Off-balance sheet commitments and arrangements

As of the Latest Practicable Date, we have not entered into any off-balance sheet transaction.

SELECTED COMBINED BALANCE SHEET DATA

	As of 30 June			As of 31 March
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets	20,266	40,892	112,080	244,937
Current assets	249,064	350,030	1,040,235	1,950,639
Current liabilities	197,592	263,791	831,145	1,541,814
Net current assets	51,472	86,239	209,090	408,825
Total assets less current liabilities	71,738	127,131	321,170	653,762
Non-current liabilities	—	—	3,584	16,555
Net assets	71,738	127,131	317,586	637,207

NET CURRENT ASSETS

Details of our current assets and liabilities as of each of the balance sheet dates during the Track Record Period are as follows:

	As of 30 June			As of 31 March
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Current assets				
Inventories	35,241	68,943	181,056	131,655
Trade and other receivables	93,518	138,394	673,767	1,597,444
Amounts due from related parties	98,936	106,546	38,017	—
Pledged bank deposits	9,600	12,600	38,500	91,700
Cash and cash equivalents	11,769	23,547	108,895	129,840
	249,064	350,030	1,040,235	1,950,639
Current liabilities				
Bank loans	43,000	60,000	149,500	227,000
Trade and other payables	154,255	173,005	534,713	1,141,338
Amounts due to a shareholder of the Company	—	29,082	142,149	129,995
Current taxation	337	1,704	4,783	43,481
	197,592	263,791	831,145	1,541,814
Net current assets	51,472	86,239	209,090	408,825

Our net current assets increased by 67.5% from RMB51.5 million as of 30 June 2006 to RMB86.2 million as of 30 June 2007, primarily due to an increase of RMB44.9 million in trade and other receivables and an increase of RMB33.7 million in inventories as a result of an increase in sales volume. Such increase was partially offset by an increase of RMB29.1 million in amounts due to a shareholder of the Company due to shareholder loans, the proceeds of which were used to fund our expansion, and an increase of RMB18.8 million in trade and other payables due to an increase in sales volume.

Our net current assets increased by 142.5% from RMB86.2 million as of 30 June 2007 to RMB209.1 million as of 30 June 2008, primarily due to an increase of RMB535.4 million in trade and other receivables and an increase of RMB112.1 million in inventories as a result of an increase in sales volume. Such increase was partially offset by an increase of RMB361.7 million in trade and other payables as a result of an increase in sales volume and an increase of RMB113.1 million in amounts due to a shareholder of the Company. Amounts due to a shareholder of the Company increased due to shareholder loans, the proceeds of which were used to fund our expansion.

Our net current assets increased by 95.5% from RMB209.1 million as of 30 June 2008 to RMB408.8 million as of 31 March 2009, primarily due to an increase of RMB923.7 million in trade and other receivables as a result of an increase in sales volume and an increase of RMB53.2 million in pledged bank deposits as a result of an increase in our bills payables. Such increase was partially offset by an increase of RMB606.6 million in trade and other payables as a result of an increase in sales volume and an increase of RMB77.5 million in bank loans used for payment for our suppliers.

As of 30 April 2009, we had net current assets of approximately RMB448.4 million. The key components of our current assets as of such date included inventories of RMB87.5 million, trade and other receivables of RMB1,663.7 million, pledged bank deposits of RMB71.7 million and cash and cash equivalents of RMB154.1 million. The key components of our current liabilities included bank loans of RMB247.0 million, trade and other payables of RMB1,116.1 million, amounts due to a shareholder of the Company of RMB129.8 million and current taxation of RMB35.7 million.

INVENTORY ANALYSIS

During the Track Record Period, inventory was one of the principal components of our current assets. The value of our inventories accounted for approximately 14.1%, 19.7%, 17.4% and 6.7% of our total current assets as of 30 June 2006, 2007 and 2008 and 31 March 2009, respectively. We conduct physical stock counts at the end of each financial year and we record a specific provision if the estimate of the net realisable value of any inventory is below the corresponding cost of such inventory, as a result of, among other things, being obsolete or damaged. During the Track Record Period, we were not required to and did not make any inventory provisions because we only commenced mass production upon confirmation of purchase orders with our customers prior to 2008. Beginning in 2008, we procured a portion of raw materials and commenced production, before receipt of purchase orders, of a portion of the indicated purchase volume of certain products for which we received high purchase volume indications from our distributors during their preview of the prototype products, and we procured the majority of raw materials and commenced mass production of the majority of our products upon confirmation of purchase orders with our distributors or customers.

The following table is a summary of our balance of inventories, which was stated at cost, as of each of the balance sheet dates during the Track Record Period:

	As of 30 June			As of 31 March
	2006	**2007**	**2008**	**2009**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Raw materials	24,885	29,845	23,112	12,915
Work in progress	540	7,758	110,070	34,478
Finished goods	9,816	31,340	47,874	84,262
Total	**35,241**	**68,943**	**181,056**	**131,655**

Our inventories increased by 95.6% from RMB35.2 million as of 30 June 2006 to RMB68.9 million as of 30 June 2007, primarily due to the increase in sales volume and the timing of deliveries of finished goods requested by our customers.

Our inventories increased significantly by 162.6% from RMB68.9 million as of 30 June 2007 to RMB181.1 million as of 30 June 2008, primarily due to a significant increase in work in progress from RMB7.8 million as of 30 June 2007 to RMB110.1 million as of 30 June 2008. The amount of work in progress increased significantly primarily due to the increase in sales volume and the fact that the amount of work in progress as of 30 June 2008 included work in progress for products that we used to commence production at a later time due to a change of our production schedule at the beginning of 2008, as further explained below.

Prior to 2008, we only commenced mass production upon confirmation of purchase orders with our customers. We moved our production schedule forward beginning in 2008 by commencing production of a portion of the indicated purchase volume of certain products for which we received high purchase volume indications from our distributors during their preview of the prototype products, which takes place approximately one month prior to the sales fairs that follows. As a result of the adoption of new production schedule starting from 2008, we commenced production of a portion of products during the second quarter of the calendar year based on the indicated purchase volume received from our distributors during their preview in April 2008. As explained above, prior to the change of our production schedule in 2008, in previous years, such production only took place in the third quarter of the calendar year after confirmation of purchase orders with our customers. We believe that the new production schedule allows us to better control production costs and manage delivery schedules.

Our inventories decreased by 27.3% from RMB181.1 million as of 30 June 2008 to RMB131.7 million as of 31 March 2009, primarily due to improved inventory control and stock clearance as a result of the relocation of our warehouse in March 2009.

As of 30 April 2009, all of the finished goods in stock as of 30 June 2006, 2007 and 2008 and RMB76.4 million, or 90.7%, of finished goods in stock as of 31 March 2009 were subsequently consumed or sold above cost. As of 30 April 2009, RMB93.8 million, or 71.2%, of our inventories as of 31 March 2009 of RMB131.7 million were consumed or sold.

The following table sets forth our average inventory turnover days for the Track Record Period:

	For the financial year ended 30 June			For the nine months ended 31 March
	2006(1)	**2007(1)**	**2008(1)**	**2009(2)**
Average inventory turnover days	39	64	47	26

Notes:

(1) Average inventory turnover days is equal to the average of the starting and ending inventory balances of the period divided by cost of sales and multiplied by 365 days.

(2) Average inventory turnover days for the nine months ended 31 March 2009 is equal to the average of the starting and ending inventory balances of the period divided by cost of sales and multiplied by 274 days.

Our average inventory turnover days increased by 64.1% from 39 for the financial year ended 30 June 2006 to 64 for the financial year ended 30 June 2007, primarily due to increases in production volume and inventories as a result of increased sales.

Our average inventory turnover days decreased by 26.6% from 64 for the financial year ended 30 June 2007 to 47 for the financial year ended 30 June 2008, primarily due to our improved raw material procurement control and logistics management, as well as improved inventory control.

Our average inventory turnover days decreased by 44.7% from 47 for the financial year ended 30 June 2008 to 26 for the nine months ended 31 March 2009, primarily due to improved inventory control and stock clearance as a result of the relocation of our warehouse in March 2009.

TRADE AND OTHER RECEIVABLES ANALYSIS

The following table sets forth the aging analysis of our trade and other receivables for the Track Record Period:

	As of 30 June			As of 31 March
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Trade and bills receivables				
Within 90 days	38,889	51,135	393,264	1,112,614
91 to 180 days	18,521	17,023	94,973	263,808
181 to 360 days	6,521	9,356	48,946	42,681
Over 360 days	4,763	6,204	—	—
Subtotal	68,694	83,718	537,183	1,419,103
Deposits, prepayments and other receivables	24,824	54,676	136,584	178,341
Total	**93,518**	**138,394**	**673,767**	**1,597,444**

We generally provide our distributors a credit period between 30 and 180 days, the exact term of which is determined based on such factors as past sales performance, credit history and their expansion plans. As a matter of policy, we do not grant credit periods of over 180 days to any of our distributors or customers. However, there may be instances when we grant payment extensions to certain of our distributors or customers, which will result in payments being made to us more than 180 days after the date of delivery of our *361°* products. We grant these extensions on an ad hoc basis, usually in instances when we believe that the greater liquidity afforded to the distributor or customer by the credit extension would assist the distributor or customer in opening new *361°* authorised retail outlets and expanding the *361°* retail network. For the financial years ended 30 June 2006, 2007 and 2008 and the nine months ended 31 March 2009, out of a total of 494, 614 and 595 distributors and pre-2008 customers, and 30 distributors[(1)], respectively, we granted such payment extension to 82, 69 and 22 distributors or pre-2008 customers, and 8 distributors, respectively. We also maintain an overall credit limit with respect to each of our distributors, the amount of which varies depending on the particular distributor. Furthermore, we require distributors with balances that are more than one year from the date of billing to settle all outstanding balances before we grant them any further credit. Specific credit terms and repayment schedules are determined on a case by case basis with each distributor and with respect to each order of our *361°* products. Our credit policy prior to the adoption of our new business model in 2008 is not different from our current credit policy as stated above except that we generally extended credit to customers for a period of 30 to 90 days. Prior to 2006, purchases by our customers were settled by wire transfer and cash. Since then, purchases by our distributors and customers have been settled by wire transfer. See "Risk Factors—If our distributors do not pay us for their purchases in a timely manner or at all, our financial condition and results of operations could be materially and adversely affected".

As of 30 April 2009, RMB240.8 million, or 17.0%, of our trade and bills receivables as of 31 March 2009 of RMB1,419.1 million were settled.

Deposits, prepayments and other receivables as of 30 June 2006 were RMB24.8 million, primarily consisting of (i) RMB23.3 million for prepayment to our suppliers; and (ii) RMB1.1 million for prepayment for purchase of land use rights of Jiangtou Industrial Park. Deposits, prepayments and other receivables as of 30 June 2007 were RMB54.7 million, primarily consisting of (i) RMB32.7 million for prepayment to our suppliers; (ii) RMB16.7 million for our prepaid advertising expenses to build and promote our *361°* brand; (iii) RMB3.5 million for advances to staff for the proposed establishment of a new separate department for apparel operations; and (iv) RMB0.9 million for prepayment for purchase of the land use right of Wuli Industrial Park Phase One. Deposits, prepayments and other receivables as of 30 June 2008 were RMB136.6 million, primarily consisting of (i) RMB59.9 million for prepayment to our suppliers; (ii) RMB53.0 million for our prepaid advertising expenses

Note:

(1) No sales have been made to pre-2008 customers who are not our distributors since January 2009.

to build and promote our *361°* brand; (iii) RMB20.5 million for bidding deposits for purchase of lands at the Wuli Industrial Park Phase One for construction of a new production facility and warehouse, and at the Huli Technology and Industrial Park for construction of a new corporate headquarters; and (iv) RMB0.9 million for prepayment for purchase of the land use right of Wuli Industrial Park Phase One. Deposits, prepayments and other receivables as of 31 March 2009 were RMB178.3 million, primarily consisting of (i) RMB127.4 million for prepayment to our suppliers; (ii) RMB17.0 million for prepayment for purchase of the land use right of Wuli Industrial Park Phase Two; (iii) RMB10.3 million for our prepaid advertising expenses; and (iv) RMB10.1 million for prepayment for listing expenses.

The following table sets forth our average trade and bills receivables turnover days for the Track Record Period:

	For the financial year ended 30 June			For the nine months ended 31 March
	2006(1)	2007(1)	2008(1)	2009(2)
Average trade and bills receivables turnover days	64	75	86	111

Notes:

(1) Average trade and bills receivables turnover days is equal to the average of the starting and ending trade and bills receivables balances of the period divided by revenues and multiplied by 365 days.

(2) Average trade and bills receivables turnover days is equal to the average of the starting and ending trade and bills receivables balances of the period divided by revenues and multiplied by 274 days.

Our average trade and bills receivables turnover days increased by 17.2% from 64 for the financial year ended 30 June 2006 to 75 for the financial year ended 30 June 2007, primarily due to the granting of longer credit terms and payment extensions to our customers to afford them with greater liquidity to open larger *361°* authorised retail outlets and to expand the *361°* retail network. Our average trade and bills receivables turnover days increased by 14.7% from 75 for the financial year ended 30 June 2007 to 86 for the financial year ended 30 June 2008, and increased by 29.1% from 86 for the financial year ended 30 June 2008 to 111 for the nine months ended 31 March 2009, primarily due to the granting of longer credit terms to all of our distributors and the granting of payment extensions to some of our distributors upon the conversion to our exclusive distributorship business model to afford them with greater liquidity and to encourage distributors to expand the *361°* retail network. See "Risk Factors—If our distributors do not pay us for their purchases in a timely manner or at all, our financial condition and results of operations could be materially and adversely affected".

We do not believe that our average trade and bills receivables turnover days will continue to increase. As cash flows and profits from the businesses of our distributors and authorised retailers continue to stabilise on a going forward basis, we believe that our distributors and authorised retailers will not require longer credit terms from us to assist them in expanding the *361º* retail network. Therefore, we currently do not intend to increase the length of credit periods that we currently offer to our distributors.

Impairment of trade and bills receivables

We review trade and other receivables that are stated at cost or amortised cost as of each balance sheet date to determine whether objective evidence of impairment exists as of such date. If objective evidence of impairment exists, the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. Impairment losses recognised in respect of trade and bills receivables the recovery of which is considered doubtful but not remote are recorded using an allowance account.

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

	For the financial year ended 30 June			For the nine months ended 31 March
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
At beginning of the year/period	3,495	3,976	5,378	14,279
Impairment loss recognised	481	1,402	8,901	25,241
At end of the year/period	3,976	5,378	14,279	39,520

As of 30 June 2006, 2007 and 2008 and 31 March 2009, our trade and bills receivables of RMB4.0 million, RMB5.4 million, RMB14.3 million and RMB39.5 million were individually determined to be impaired. The individually impaired receivables related to a number of customers, and we assessed that the receivables were not recoverable. Consequently, allowances for doubtful debts were recognised as of 30 June 2006, 2007 and 2008 and 31 March 2009. We do not hold any collateral over these balances. Our allowance for doubtful debts increased by 165.5% from RMB5.4 million as of 30 June 2007 to RMB14.3 million as of 30 June 2008, and further increased by 176.8% to RMB39.5 million as of 31 March 2009. Such increase was in line with the increase of 252.8% and 183.9% in our revenue during the corresponding periods as well as the granting of longer credit terms to all of our distributors and the granting of payment extensions to some of our distributors upon the conversion to our exclusive distributorship business model to afford them with greater liquidity and to encourage distributors to expand the *361°* retail network.

TRADE AND OTHER PAYABLES ANALYSIS

The following table sets forth the aging analysis of our trade and other payables for the Track Record Period:

	As of 30 June			As of 31 March
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Trade and bills payables				
Within 90 days	53,360	48,145	142,449	340,648
91 to 180 days	74,079	69,458	328,327	640,921
Subtotal	127,439	117,603	470,776	981,569
Other payables, accruals and receipts in advance				
Wages payable	3,713	2,788	7,285	10,968
Other tax payable	778	1,007	19,995	45,452
Other payables	60	27,166	4,343	32,691
Accrued expenses	4,642	3,805	—	31,000
Receipts in advance	17,623	20,636	32,314	39,658
Subtotal	26,816	55,402	63,937	159,769
Trade and other payables	**154,255**	**173,005**	**534,713**	**1,141,338**

Our trade and other payables primarily relate to the purchase of raw materials from our raw material suppliers and outsourced products from contract manufacturers, and are non-interest-bearing with credit terms of 30 to 180 days. We may also be required to make deposits and advance payments to our suppliers. The maximum trade payable during the Track Record Period was approximately RMB81.2 million, which was related to the purchase of raw materials from such supplier for the nine months ended 31 March 2009. As of 30 April 2009, RMB129.6 million or 13.2% of our trade and bills payables as of 31 March 2009 were settled. Purchases by us from our raw material suppliers are settled by wire transfer or cash upon acceptance by us of such raw materials.

Our other payables, accruals and receipts in advance consist of wages payable, other tax payable, other payables, accrued expenses and receipts in advance.

Our wages payable decreased by 24.9% from RMB3.7 million as of 30 June 2006 to RMB2.8 million as of 30 June 2007, primarily because monthly wages were paid in the following month and the number of staff engaged in the month of June decreased from 2,997 in 2006 to 2,085 in 2007. Our wages payable increased by 161.3% from RMB2.8 million as of 30 June 2007 to RMB7.3 million as of 30 June 2008, and further increased by 50.6% from RMB7.3 million as of 30 June 2008 to RMB11.0 million as of 31 March 2009, primarily due to increases in salary levels and the number of employees.

Our tax payable increased by 29.5% from RMB0.8 million as of 30 June 2006 to RMB1.0 million as of 30 June 2007, and increased by approximately 19 times from RMB1.0 million as of 30 June 2007 to RMB20.0 million as of 30 June 2008, and further increased by 127.3% from RMB20.0 million as of 30 June 2008 to RMB45.5 million as of 31 March 2009, primarily due to an increase in value-added tax payable, which was due to increases in our gross profit.

Our other payables as of 30 June 2006 was RMB60,000, consisting of deposits received from one of our customers. Our other payables as of 30 June 2007 were RMB27.2 million, consisting primarily of (i) RMB16.4 million for payables in connection with payment for the purchase of land use rights at the Wuli Industrial Park Phase One for construction of a new production facility and warehouse, and a new corporate headquarters at the Huli Industrial Park; and (ii) RMB10.5 million for payables in connection with advertising expenses. Our other payables as of 30 June 2008 were RMB4.3 million, consisting primarily of (i) RMB2.4 million for payables in connection with sales fairs expenses; and (ii) RMB1.4 million for payables in connection with advertising expenses. Our other payables as of 31 March 2009 were RMB32.7 million and primarily consisted of RMB26.7 million for construction in progress in Wuli Industrial Park Phase One and Jiangtou Industrial Park.

Our accrued expenses consist of accrual for advertising expenses as well as accrual for water and electricity charges. Our accrued expenses decreased by 18.0% from RMB4.6 million as of 30 June 2006 to RMB3.8 million as of 30 June 2007, primarily due to a decrease in accrual for advertising expenses. We did not record any accrued expenses as of 30 June 2008. We recorded accrued expenses as of 31 March 2009 which related to accrual for advertising expenses of RMB31.0 million.

Receipts in advance consist of prepayments received from our distributors or customers in relation to their orders placed with us. Our receipts in advance increased by 17.1% from RMB17.6 million as of 30 June 2006 to RMB20.6 million as of 30 June 2007, increased by 56.6% from RMB20.6 million as of 30 June 2007 to RMB32.3 million as of 30 June 2008, and increased by 22.7% from RMB32.3 million as of 30 June 2008 to RMB39.7 million as of 31 March 2009, primarily due to a receipt from Guangzhou Asian Games Council in the sum of RMB24.3 million for the expenses to be spent in advertising and promotional events as well as increased sales volume, which resulted in increased prepayments made to us.

The following table sets forth our average trade and bills payables turnover days for the Track Record Period:

	For the financial year ended 30 June			For the nine months ended 31 March
	2006[(1)]	2007[(1)]	2008[(1)]	2009[(2)]
Average trade and bills payables turnover days	164	151	111	122

Notes:

(1) Average trade and bills payables turnover days is equal to the average of the starting and ending trade and bills payables balances of the period divided by cost of sales and multiplied by 365 days.

(2) Average trade and bills payables turnover days is equal to the average of the starting and ending trade and bills payables balances of the period divided by cost of sales and multiplied by 274 days.

Our average trade and bills payables turnover days decreased by 7.9% from 164 for the financial year ended 30 June 2006 to 151 for the financial year ended 30 June 2007, and by 26.5% from 151 for the financial year ended 30 June 2007 to 111 for the financial year ended 30 June 2008. The decreases were primarily due to our increased use of certain new raw material suppliers. These new suppliers generally provided raw materials of higher quality but granted us shorter credit periods than our then existing suppliers. In addition, as our operating cash flow improved in the financial year ended 30 June 2008, we were able to satisfy our payment obligations with our suppliers within shorter periods. The decreases in our average trade and bills payables turnover days were not due to a deterioration of our credit standing or financial condition. Our average trade and bills payables turnover days increased by 9.9% from 111 for the financial year ended 30 June 2008 to 122 for the nine months ended 31 March 2009 primarily due to the increase in use of bills payables to settle purchase from suppliers as a result of increases in sales.

The extent of our average trade and bills payables turnover days in the near future will primarily depend on various factors such as credit terms granted by our suppliers and our ability to satisfy payment obligations with our suppliers. Going forward, we intend to source from our existing suppliers the additional raw materials we will require in connection with the expansion of our footwear production capacity from 13.6 million pairs of footwear to 15.3 million pairs by December 2009. As we increase our procurement volume and strengthen relationships with our suppliers, we expect our suppliers may offer us longer credit periods, which will contribute to an increase in our future average trade and bills payables turnover days. However, as our cash flows permits, we intend to satisfy our payment obligations with our suppliers before their due date which will cause our future average trade and bills payables turnover days to decrease. We cannot give any assurance that our suppliers will not shorten our credit periods.

Bills payable of RMB48.0 million, RMB60.0 million, and RMB46.5 million as of 30 June 2006, 2007 and 2008 respectively were guaranteed by Bieke Fujian. In addition, bills payable of RMB92.0 million and RMB141.0 million as of 30 June 2008 and 31 March 2009 were guaranteed by Mr. Ding Wuhao, Mr. Ding Huihuang, Mr. Ding Huirong, all of whom are our Controlling Shareholders, Mr. Ding Jiantong, our Shareholder, and/or Mr. Ting Tong Bun. Our Directors confirm that the above guarantees will be released prior to the Listing.

ADVANCES TO RELATED PARTIES

We made unsecured and interest-free advances to Mr. Ting Tong Bun during the Track Record Period at his request to satisfy his personal short-term financial needs unrelated to the operation of our Group. Pursuant to an undertaking dated 20 August 2008 and entered into by Sanliuyidu Fujian, Mr. Ting Tong Bun and Mr. Ding Huihuang, Mr. Ding Huihuang has undertaken to Sanliuyidu Fujian to repay the outstanding balance of approximately RMB49,994,976.6 which Mr. Ting Tong Bun owed to Sanliuyidu Fujian as of 31 July 2008. Such advances were fully repaid by Mr. Ding Huihuang prior to the Listing and will not continue after the Listing. Our PRC legal advisers, Tian Yuan Law Firm, have confirmed that such advances, being advances made to an individual, did not violate any PRC laws and regulations and the articles of association of Sanliuyidu Fujian; and our Directors confirmed that these advances had been approved and properly recorded in our Group's management accounts and are legal and valid under PRC laws, and such loan advancing activities would not continue after the Listing.

In addition, we also made unsecured and interest-free advances to Bieke Fujian during the Track Record Period to pre-pay part of the consideration for the land and properties pursuant to an agreement between Bieke Fujian and us dated 5 August 2003, details of which are set out in the section headed "History and Corporate Structure—Our history", and to satisfy Bieke Fujian's liquidity needs for settlement of its payables incurred before it ceased sportswear business operations in June 2003. Such advances were fully repaid prior to the Listing. Our Directors confirm that these advances had been approved and properly recorded in our Group's management accounts. According to our PRC legal advisers, Tian Yuan Law Firm, such loan advancing activities between enterprises contravened certain provisions of the Lending General Provisions (貸款通則) promulgated by the PBOC in 1996. According to the Lending General Provisions, the PBOC may impose a fine equivalent to one to five times of the income (i.e. interests) generated from such advances. As such advances were interest-free, we did not generate any income from such advances. Accordingly, as confirmed by our PRC legal advisers, Tian Yuan Law Firm, it is unlikely that the PBOC would impose a fine on us by reason of such advancing activities. In any event, our Controlling Shareholders have agreed to indemnify our Group for any losses or any damages suffered by our Group as a result of any penalty imposed on us by the PBOC arising from the said advances made. Our Directors confirmed that such loan advancing activities had been terminated prior to the Listing upon repayment in full by Bieke Fujian and would not continue after the Listing.

In order to ensure such loan advancing activities will not recur in the future, regular training will be given to all of our Directors and senior management by our company secretary and/or compliance adviser and/or other external advisers on the requirements of the Listing Rules. Monthly internal reporting mechanisms relating to notifiable transactions or transactions not made in the ordinary course of business will be adopted and our Directors and senior management will review such transactions to ensure their legality. We will also engage legal advisers to advise us on Hong Kong and PRC related regulatory and compliance matters as necessary.

INDEBTEDNESS

Borrowings

The following table sets forth our indebtedness as of each of the balance sheet dates during the Track Record Period:

	As of 30 June			As of 31 March
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Current				
Bank loans—secured	—	—	15,000	40,000
Bank loans—unsecured	43,000	60,000	134,500	187,000
Amounts due to a shareholder of the Company	—	29,082	142,149	129,995
	43,000	89,082	291,649	356,995

The following table sets forth the maturity profile of our bank loans as of each of the balance sheet dates during the Track Record Period:

	As of 30 June			As of 31 March
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Analysed into:				
Bank loans repayable within one year	43,000	60,000	149,500	227,000

As of 30 April 2009, being the latest practicable date for the purpose of this indebtedness statement in this prospectus, our total indebtedness amounted to RMB247.0 million, consisting of short-term secured bank loans of RMB40.0 million and short-term unsecured bank loans of RMB207.0 million. We confirm that there has not been any material change in our indebtedness since 30 April 2009.

As of 30 April 2009, being the latest practicable date for the purpose of this indebtedness statement in this prospectus, our Group had banking facilities of RMB564.5 million, of which RMB528.5 million were utilised (which amount includes bank loans and bills payables). The above bank loans are all denominated in RMB. The bank loans bear fixed interest rates ranging from 5.6% to 6.0% per annum for the financial year ended 30 June 2006, ranging from 5.6% to 6.2% per annum for the financial year ended 30 June 2007, and ranging from 6.2% to 8.2% per annum for the financial year ended 30 June 2008. Due to their short maturity, the carrying amounts of current bank loans are approximately equal to their fair values.

The bank loans of RMB66.0 million as of 31 March 2009 were secured by the following interests and/or guaranteed by the following guarantors:

- RMB5.0 million was secured by properties and land use right held by Sanliuyidu Fujian;
- RMB15.0 million was secured by land use right held by Sanliuyidu Fujian;
- RMB20.0 million was secured by properties and land use right held by Sanliuyidu Fujian, as well as guaranteed by (a) Sanliuyidu China, (b) Mr. Ting Tong Bun, (c) Mr. Ding Jiantong, (d) Mr. Ding Wuhao, (e) Mr. Ding Huirong and (f) Mr. Ding Huihuang;
- RMB1.7 million was guaranteed by (a) Sanliuyidu China, (b) Mr. Ting Tong Bun, (c) Mr. Ding Jiantong, (d) Mr. Ding Wuhao, (e) Mr. Ding Huihuang, (f) Mr. Ding Huirong, (g) an Independent Third Party which is our raw material supplier and (h) shareholders of such raw material supplier;
- RMB4.3 million was guaranteed by (a) Sanliuyidu China, (b) Mr. Ting Tong Bun, (c) Mr. Ding Jiantong, (d) Mr. Ding Wuhao, (e) Mr. Ding Huihuang, (f) Mr. Ding Huirong and (g) certain Independent Third Parties;
- RMB10.0 million was guaranteed by (a) Sanliuyidu Fujian, (b) Mr. Ding Wuhao, (c) Mr. Ting Tong Bun, (d) Mr. Ding Huihuang, (e) Mr. Ding Huirong, (f) Mr. Ding Jiantong, (g) an Independent Third Party which is our raw material supplier and (h) a shareholder of such raw material supplier; and
- RMB10.0 million was guaranteed by (a) Sanliuyidu Fujian, (b) Mr. Ding Jiantong, (c) Mr. Ding Wuhao and (d) Mr. Ding Huihuang.

The bank loans of RMB15.0 million as of 30 June 2008 were secured by interests in leasehold land held for own use under operating leases with a carrying value of RMB5,945,000.

The bank loans of RMB149.5 million as of 30 June 2008 were guaranteed by several guarantors:

- RMB90.0 million was guaranteed by (a) Bieke Fujian which is wholly-owned by Mr. Ting Tong Bun, (b) Mr. Ding Huirong and (c) certain Independent Third Parties which were our raw material suppliers;
- RMB10.0 million was guaranteed by Sanliuyidu China;
- RMB20.0 million was guaranteed by (a) Sanliuyidu China, (b) Mr. Ting Tong Bun and (c) an Independent Third Party which was our raw material supplier;
- RMB9.5 million was guaranteed by Sanliuyidu Fujian; and
- RMB20.0 million was guaranteed by (a) Sanliuyidu Fujian, (b) Mr. Ding Wuhuo and (c) an Independent Third Party which who was our raw material supplier.

The bank loans of RMB60.0 million as of 30 June 2007 were guaranteed by (a) Bieke Fujian and (b) certain Independent Third Parties which were our raw material suppliers.

The bank loans of RMB43.0 million as of 30 June 2006 were guaranteed by several guarantors:

- RMB40.0 million was guaranteed by (a) Bieke Fujian and (b) certain Independent Third Parties which were our raw material suppliers; and
- RMB3.0 million was guaranteed by an Independent Third Party which was our raw material supplier.

Our Directors confirm that the above guarantees will be released prior to the Listing. Certain guarantees were provided by our raw material suppliers in response to the request by the lending bank for a guarantee from an Independent Third Party acceptable to them. We and/or our Connected Persons did not provide any cross-guarantee and/or counter-guarantee to these raw material suppliers.

The amount of approximately RMB142.1 million due to a controlling shareholder of the Company as of 30 June 2008 was equivalent to the HK$160 million loan from Mr. Ding Huihuang in paying up the registered capital of Sanliuyidu China. The total loan amount was HK$160 million, interest-free and unsecured. Please refer to the relevant disclosure under the section headed "History and Corporate Structure—Our history" for details of the above loan. All outstanding amount owed by our Company to Mr. Ding Huihuang has been waived by him on 10 June 2009.

Gearing ratios

Our gearing ratio was 16.0%, 15.3%, 13.0% and 10.3% as of 30 June 2006, 2007 and 2008 and 31 March 2009, respectively. Gearing ratio is derived by dividing interest-bearing debt incurred in the ordinary course of business by total assets.

Our gearing ratio decreased from 16.0% as of 30 June 2006 to 15.3% as of 30 June 2007, and to 13.0% as of 30 June 2008 primarily due to an increase in inventories and trade and other receivables which resulted in an increase in total assets. Our gearing ratio decreased from 13.0% as of 30 June 2008 to 10.3% as of 31 March 2009, primarily due to an increase in trade and other receivables which resulted in an increase in total assets.

Contingent liabilities

As of 30 April 2009, we had no material contingent liabilities. We are not involved in any current material legal proceedings, nor are we aware of any pending or potential material legal proceedings involving us. If we were involved in such material legal proceedings, we would record any loss contingencies when, based on information then available, it is likely that a loss has been incurred and the amount of the loss can be reasonably estimated.

Disclaimers

Save as disclosed in "Financial Information—Indebtedness" above, and apart from intra-group liabilities, we did not have outstanding mortgages, charges, debentures, loan capital, bank overdrafts, loans, debt securities or other similar indebtedness, finance leases or hire purchase commitments, liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities outstanding at 30 April 2009.

Our Directors confirm that, up to the Latest Practicable Date, there have been no material changes in our indebtedness and contingent liabilities since 30 April 2009.

PROFIT FORECAST

We believe that, in the absence of unforeseen circumstances and on the base and assumption as set out in "Appendix III—Profit Forecast", our Company's profit after taxation for the financial year ending 30 June 2009 is unlikely to be less than RMB552.5 million (HK$627.9 million). On the basis of the prospective financial information and the weighted average number of Shares expected to be issued and outstanding during the current financial year of 1,501,369,863 Shares (assuming the Sole Global Coordinator does not exercise the Over-allotment Option), the forecast earning per Share on a weighted average basis for the financial year ending 30 June 2009 is unlikely to be less than RMB0.368 (HK$0.418).

On a pro forma fully diluted basis and on the assumption that our Company had been listed since 1 July 2008 and a total of 2,000,000,000 Shares were issued and outstanding during the entire year (without taking into account any Shares which may be issued upon the exercise of the Over-allotment Option, any options granted under the Pre-IPO Share Option Scheme or options that may be granted under the Share Option Scheme), the forecast earnings per Share for the financial year ending 30 June 2009 is unlikely to be less than RMB0.276 (HK$0.314).

The texts of letters from the reporting accountants of our Company, and from the Sole Sponsor in respect of the profit forecast are set out in "Appendix III—Profit Forecast".

DIVIDEND AND DIVIDEND POLICY

Our Company declared a dividend of RMB45.3 million in December 2008 and a dividend of RMB31.4 million in June 2009. All such declared dividends were paid out prior to the Listing. Save as above, no other dividends were paid by us or any of our subsidiaries to their then shareholders during the Track Record Period.

No dividends may be declared or paid other than out of profit and reserves of our Company lawfully available for distribution, including share premium. We may declare dividends via a general meeting but the amount may not exceed the amount recommended by our Directors. We may from time to time also pay interim dividends as determined by our Directors to be justified by our profit and may also pay half yearly or at other intervals at a fixed rate if the Directors are of the opinion that the profit available for distribution justifies the payment.

Our Board of Directors will declare dividends, if any, in Hong Kong dollars on a per Share basis and will pay such dividends in Hong Kong dollars. The amount of any dividends to be declared or paid in the future will depend on, among other things, our results of operations, cash flows and financial condition, operating and capital requirements, the amount of distributable profit, the constitution of our Company, the Companies Law, applicable laws and regulations and other factors that our Directors may consider as relevant. Shareholders will be entitled to receive such dividends pro rata according to the amounts paid up or credited as paid up on the Shares. The declaration, payment, and amount of dividends will be subject to the absolute discretion of our Directors. Our future declaration of dividends may or may not reflect on its historical declarations of dividend. There is no assurance as to whether the dividend distribution will occur as intended, the amount of dividend payment or the timing of such payment.

Subject to the factors described above, our Board of Directors currently intends to recommend at the relevant shareholders meetings of the Company an annual dividend of no less than 20% of the net profit available for distribution to our Shareholders in the foreseeable future.

RELATED PARTY TRANSACTIONS

With respect to the related parties transactions set out in our combined financial statements included in the accountants' report set out in Appendix I to this prospectus, our Directors confirm that these transactions were conducted on normal commercial terms and/or that such terms were no less favourable to our Group than terms available to Independent Third Parties and were fair and reasonable and in the interest of our Shareholders as a whole.

For a discussion of related party transactions, see Appendix I to this prospectus.

DISTRIBUTABLE RESERVES

As of 31 March 2009, we did not have any distributable reserves available for distribution to the Shareholders of our Company.

WORKING CAPITAL

Our Directors are of the opinion that, taking into consideration of the financial resources presently available to our Company, including banking facilities and other internal resources, and the estimated net proceeds of the Global Offering, our Company has sufficient working capital for its working capital requirements at least in the next 12 months commencing from the date of this prospectus.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors have confirmed that there are no circumstances which, had we been required to comply with Rules 13.13 to 13.19 in Chapter 13 of the Listing Rules, would have given rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that, up to the Latest Practicable Date, there has been no material adverse change in our financial or trading position or prospects since 31 March 2009 and there is no event since 31 March 2009 which would materially affect the information shown in our combined financial statements included in the accountants' report set out in Appendix I to this prospectus, in each case except as otherwise disclosed herein.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following statement of unaudited pro forma adjusted net tangible assets of our Group prepared in accordance with Rule 4.29 of the Listing Rules is for illustration purposes only and it may not give a true picture of our net tangible assets following the Global Offering. The following unaudited pro forma adjusted net tangible assets of our Group is set out here to illustrate the effect of the Global Offering on our combined net tangible assets as of 31 March 2009 as shown in the combined financial statement in the accountants' report, the text of which is set out in Appendix I to this prospectus, and adjusted as described below. The unaudited pro forma adjusted net tangible assets statement does not form part of the accountants' report.

	Combined net tangible assets attributable to the equity holders of the Company as at 31 March 2009	**Estimated net proceeds from the Global Offering**	**Unaudited pro forma adjusted net tangible assets**	**Unaudited pro forma adjusted net tangible assets per Share**
	RMB'000 *(Note 1)*	*RMB'000* *(Note 2)*	*RMB'000*	*RMB* *(Note 3)*
Based on the Offer Price of HK$3.15 per Share (being the lowest)	637,207	1,277,477	1,914,684	0.96
Based on the Offer Price of HK$4.35 per Share (being the highest)	637,207	1,786,997	2,424,204	1.21

Notes:

(1) The audited combined net tangible assets attributable to the equity holders of our Company as at 31 March 2009 are arrived based on our audited combined net tangible assets of approximately RMB637,207,000 as at 31 March 2009 extracted from the accountants' report set out in Appendix I to this prospectus.

(2) The estimated net proceeds from the Global Offering are based on the Offer Price of HK$3.15 and HK$4.35 per Share, after deduction of the underwriting fees and other related expenses payable by our Company. The calculation of the estimated net proceeds from the Global Offering does not take into account any Shares which may be issued upon the exercise of the Over-allotment Option, any options granted under the Pre-IPO Share Option Scheme or options that may be granted under the Share Option Scheme.

(3) The unaudited pro forma net tangible assets per Share is arrived at after adjustment for the estimated net proceeds from the Global Offering payable to our Company as described in note (2) and on the basis that a total of 2,000,000,000 Shares were in issue as at 31 March 2009 (including Shares in issue as at the date of this prospectus and those Shares to be issued pursuant to the Global Offering and the Capitalisation Issue).

(4) Details of valuation of our Group's properties interest as at 31 March 2009 are set out in Appendix IV to this prospectus. Our Group will not incorporate the revaluation surplus or deficit in its financial statements for the year ending 30 June 2009. It is our Group's accounting policy to state its interests in leasehold land held for own use under operating leases and property, plant and equipment at cost less accumulated depreciation/amortisation and any impairment loss in accordance with the relevant HKASs, rather than at revalued amounts. The impairment reviews performed by the Company as at 31 March 2009 did not indicate the need to recognise any impairment loss for its interests in leasehold land held for own use under operating leases and property, plant and equipment. With reference to the valuation of our Group's property interests as set out in Appendix IV to this prospectus, there was a revaluation surplus of our Group's properties of approximately RMB25.2 million. If the revaluation surplus was incorporated in our Group's financial statements for the year ending 30 June 2009, an additional depreciation of approximately RMB0.15 million per annum would be incurred.

QUANTITATIVE AND QUALITATIVE INFORMATION ABOUT MARKET RISKS

Interest Rate Risk

We do not have any significant exposure for risk of changes in market interest rates as our debt obligations were all with fixed interest rates.

Foreign Currency Risk

We mainly operate in the PRC with most of the transactions settled in RMB. Our assets and liabilities, and transactions arising from its operations are mainly denominated in RMB. We have not used any forward contract or currency borrowing to hedge our exposure as foreign currency risk is considered to be minimal.

Credit Risk

It is our policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and we generally require no collateral from our customers to secure their payment obligations.

The credit risk of our other financial assets which comprise cash and cash balances, pledged deposits and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

As of 30 June 2006, 2007 and 2008 and 31 March 2009, approximately 7.8%, 7.7%, 21.6% and 13.7% of our total trade receivables were due from our largest customer, respectively, and approximately 21.0%, 23.6%, 44.8% and 52.3% of the total trade receivables were due from our five largest customers, respectively.

Commodity price risk

The principal raw materials used in the production of our footwear products are leather, synthetic leather, fabrics, rubber, plastics and sole. We are exposed to fluctuations in the prices of these raw materials which are influenced by global as well as regional supply and demand conditions. Fluctuations in the prices of raw materials could adversely affect our financial performance. We historically have not entered into any commodity derivative instruments to hedge the potential commodity price changes.

Liquidity Risk

Liquidity risk is the risk of non-availability of funds to meet all contractual financial commitments as they fall due. We do not have any significant exposure to liquidity risk as we were in a net current asset position as of 30 June 2006, 2007 and 2008 and 31 March 2009.

Effects of Inflation

According to the China Statistical Bureau, China's overall national inflation rate, as represented by changes in the general consumer price index, was approximately 1.8%, 1.5%, 4.8% and 5.9% in the years ended 31 December 2005, 2006, 2007 and 2008, respectively. The inflation rate in China has been subject to an upward trend since 2007. Although there can be no assurance as to the impact in future periods, inflation has not had a significant effect on our business during the Track Record Period. As of the Latest Practicable Date, our business has not been materially affected by any inflation or deflation.

For an additional discussion of quantitative and qualitative information about market risks, see note 21 to our combined financial statements included in the accountants' report set out in Appendix I to this prospectus.