The following is the text of a report, prepared for the purpose of incorporation in this prospectus, received from the reporting accountants of our Company, KPMG, Certified Public Accountants, Hong Kong.

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

18 June 2009

The Directors
361 Degrees International Limited
Merrill Lynch Far East Limited

Dear Sirs

Introduction

We set out below our report on the financial information relating to 361 Degrees International Limited (the "**Company**") and its subsidiaries (hereinafter collectively referred to as the "**Group**"), including the combined income statements, the combined statements of changes in equity and the combined cash flow statements of the Group, for each of the years ended 30 June 2006, 2007 and 2008 and the nine months ended 31 March 2009 (the "**Relevant Period**"), and the combined balance sheets of the Group as at 30 June 2006, 2007 and 2008 and 31 March 2009 and the balance sheet of the Company as at 31 March 2009, together with the notes thereto (the "**Financial Information**"), for inclusion in the prospectus of the Company dated 18 June 2009 (the "**Prospectus**").

The Company was incorporated in the Cayman Islands on 1 August 2008 as an exempted company with limited liability under the Companies Law. Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a group reorganisation (the "**Reorganisation**"), as detailed in the section headed "Corporate Reorganisation" in Appendix VI to the Prospectus, which was completed on 15 August 2008, the business operations together with the relevant assets and liabilities of Sanliuyidu (Hong Kong) Sports Goods Co., Ltd. (the "**Predecessor Entity**"), Sanliuyidu (Fujian) Sports Goods Co., Ltd. (三六一度（福建）體育用品有限公司) and Sanliuyidu (Xiamen) Industry and Trade Co., Ltd. (三六一度（廈門）工貿有限公司), details of which are set out in Section A below, were transferred to the Group and the Company became the holding company of the subsidiaries now comprising the Group. The Company has not carried on any business since the date of its incorporation, save for the Reorganisation.

As at the date of this report, no audited financial statements have been prepared for the Company and the companies comprising the Group, except for Sanliuyidu (China) Co., Ltd. (三六一度(中國)有限公司), Sanliuyidu (Fujian) Sports Goods Co., Ltd. and Sanliuyidu (Xiamen) Industry and Trade Co., Ltd., as they are newly incorporated and have not been involved in any business transactions since their respective dates of establishment/incorporation other than the Reorganisation, or are not subject to statutory audit requirements under the relevant rules and regulations in their jurisdictions of incorporation. We have, however, reviewed all significant transactions of these companies from their respective dates of establishment/incorporation to 31 March 2009 for the purpose of this report.

The statutory financial statements of the other companies now comprising the Group, which were prepared in accordance with the relevant accounting rules and regulations applicable to enterprises with foreign investment in the People's Republic of China ("**PRC**"), were audited during the Relevant Period by the respective auditors as indicated below:

Name of company	Financial period	Auditors
Sanliuyidu (China) Co., Ltd. (三六一度(中國)有限公司)	For the period from 21 April 2005 (date of establishment) to 31 December 2006	XiaMen XinChang Certified Public Accountants Co., Ltd (Note) (廈門新昌會計師事務所)
	For the year ended 31 December 2007	Quanzhou Weze Accountant (Note) (泉州市維正聯合會計師事務所)
	For the year ended 31 December 2008	Quanzhou Huatian Certified Public Accountants, Ltd (Note) (泉州華天有限責任會計師事務所)
Sanliuyidu (Fujian) Sports Goods Co., Ltd. (三六一度(福建)體育用品有限公司)	For the years ended 31 December 2005 and 2006	XiaMen XinChang Certified Public Accountants Co., Ltd (Note) (廈門新昌會計師事務所)
	For the year ended 31 December 2007	Quanzhou Weze Accountant (Note) (泉州市維正聯合會計師事務所)
	For the year ended 31 December 2008	Quanzhou Huatian Certified Public Accountants, Ltd (Note) (泉州華天有限責任會計師事務所)
Sanliuyidu (Xiamen) Industry and Trade Co., Ltd. (三六一度(廈門)工貿有限公司)	For the period from 19 May 2008 (date of incorporation) to 31 December 2008	Quanzhou Huatian Certified Public Accountants, Ltd (Note) (泉州華天有限責任會計師事務所)

Note: The English translation of the company names is for reference only. The official names of these companies are in Chinese.

Basis of preparation

The Financial Information has been prepared by the directors of the Company based on the audited financial statements or, where appropriate, unaudited management accounts of the companies now comprising the Group, on the basis set out in Section A below, after making such adjustments as are appropriate. Adjustments have been made, for the purpose of this report, to restate these financial statements to conform with Hong Kong Financial Reporting Standards ("**HKFRSs**") promulgated by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. HKFRSs include Hong Kong Accounting Standards and Interpretations.

Respective responsibilities of directors and reporting accountants

The directors of the Company are responsible for the preparation and true and fair presentation of the Financial Information in accordance with HKFRSs. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the Financial Information that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Our responsibility is to form an opinion on the Financial Information based on our audit.

Basis of opinion

As a basis for forming an opinion on the Financial Information, for the purpose of this report, we have carried out appropriate audit procedures in respect of the Financial Information for the Relevant Period in accordance with Hong Kong Standards on Auditing issued by the HKICPA and have carried out such additional procedures as we considered necessary in accordance with Auditing Guideline "Prospectuses and the Reporting Accountant" (Statement 3.340) issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the Financial Information is free from material misstatement.

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

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

We have not audited any financial statements of the companies now comprising the Group in respect of any period subsequent to 31 March 2009.

Opinion

In our opinion, for the purpose of this report, all adjustments considered necessary have been made and the Financial Information, on the basis of presentation set out in Section A below and in accordance with the accounting policies set out in Section C below, gives a true and fair view of the Group's combined results and cash flows for the Relevant Period, and the state of affairs of the Group as at 30 June 2006, 2007 and 2008 and 31 March 2009 and the Company's state of affairs as at 31 March 2009.

Corresponding financial information

For the purpose of this report, we have also reviewed the unaudited corresponding financial information of the Group comprising the combined income statement, the combined statement of changes in equity and the combined statement of cash flows for the nine months ended 31 March 2008, together with the notes thereon (the "Corresponding Financial Information"), for which the directors are responsible, in accordance with Hong Kong Standards on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. Our responsibility is to express a conclusion on the Corresponding Financial Information based on our review.

A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the Corresponding Financial Information.

Based on our review, for the purpose of this report, nothing has come to our attention that causes us to believe that the Corresponding Financial Information is not prepared, in all material respects, in accordance with the same basis adopted in respect of the Financial Information.

A BASIS OF PRESENTATION

Mr Ding Huihuang, Mr Ding Wuhao and Mr Ding Huirong owned various companies in the British Virgin Islands, 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 of Hong Kong Limited, the Company underwent the Reorganisation, as detailed in the section headed "Corporate Reorganisation" in Appendix VI to the Prospectus.

As the companies that took part in the 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 Company Limited, Dings International Company Limited and Hui Rong International Company Limited (referred to as "**the controlling equity holders**") before and after the 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 Financial Information has been prepared using the merger basis of accounting as if the Group 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.

The Financial Information relating to the combined income statements, the combined statements of changes in equity and the combined cash flow statements of the Group as set out in Section B of this report for the Relevant Period include the results of operations of the companies comprising the Group (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 Relevant Period. The combined balance sheets of the Group as at 30 June 2006, 2007 and 2008 and 31 March 2009 as set out in Section B of this report have been prepared to present the state of affairs of the companies comprising the Group as at those dates as if the current group structure had been in existence as at the respective dates.

Intra-group balances and transactions are eliminated in full in preparing the Financial Information.

As at the date of this report, the Company has direct and indirect interests in the following subsidiaries, all of which are private companies, particulars of which are set out below:

Name of company	Place and date of incorporation/ establishment	Issued and fully paid-up/ registered capital	Attributable equity interest held by the Company		Principal activities
			Direct	Indirect	
Sanliuyidu Holdings Company Limited	British Virgin Islands (the "BVI")/ 20 February 2008	US$100/ US$50,000	100%	—	Investment holding
361 Enterprise Company Limited	Hong Kong/ 22 April 2008	HK$1/ HK$10,000	—	100%	Investment holding
Sanliuyidu (Fujian) Sports Goods Co., Ltd. (三六一度(福建)體育用品有限公司) (Notes (i) and (iii))	PRC/ 7 July 2003	HK$80,000,000/ HK$80,000,000	—	100%	Manufacturing and trading of sporting goods
Sanliuyidu (China) Co., Ltd. (三六一度(中國)有限公司) (Notes (i) and (iii))	PRC/ 21 April 2005	HK$160,000,000/ HK$160,000,000	—	100%	Manufacturing and trading of sporting goods
Sanliuyidu (Xiamen) Industry and Trade Co., Ltd. (三六一度(廈門)工貿有限公司) (Notes (ii) and (iii))	PRC/ 19 May 2008	RMB100,000,000/ RMB100,000,000	—	100%	Trading of sporting goods

Notes:

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

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

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

Pursuant to the Reorganisation, the business operations together with the relevant assets and liabilities of the Predecessor Entity, Sanliuyidu (Fujian) Sports Goods Co., Ltd. and Sanliuyidu (Xiamen) Industry and Trade Co., Ltd. were transferred to the Group.

Because the ultimate equity holders controlled the aforesaid business operations of the Predecessor Entity transferred to the companies comprising the Group before the Reorganisation and continue to control the companies comprising the Group after the Reorganisation, the Financial Information has been prepared as a reorganisation of businesses under common control. Accordingly, the relevant assets and liabilities of the Predecessor Entity transferred to the companies comprising the Group have been recognised at historical cost.

For the purpose of this report, the results of operations of the Predecessor Entity for the Relevant Period have been included in the Group's combined income statements, combined statements of changes in equity and combined cash flow statements for the Relevant Period. The state of affairs of the Predecessor Entity as at 30 June 2006, 2007 and 2008 and 31 March 2009 have been included in the Group's combined balance sheets at the respective dates.

Particulars of the Predecessor Entity are set out below:

			Attributable equity interest held by the Company		
Name of company	**Place and date of incorporation**	**Issued and fully paid-up/ registered capital**	**Direct**	**Indirect**	**Principal activity**
Sanliuyidu (Hong Kong) Sports Goods Co., Ltd. (三六一度(香港)體育用品有限公司) (Note (i))	Hong Kong/ 6 April 2004	HK$10,000/ HK$10,000	—	100%	Investment holding

Note:

(i) Sanliuyidu (Hong Kong) Sports Goods Co., Ltd., a limited liability company wholly owned by the ultimate equity holders, transferred its business operations together with relevant assets and liabilities to 361 Enterprise Company Limited and has become an inactive company since February 2009.

B FINANCIAL INFORMATION

1 Combined income statements

	Section C Note	Years ended 30 June			Nine months ended 31 March	
		2006	2007	2008	2008	2009
		RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Revenues	2	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	3	824	1,591	2,467	1,031	5,827
Other loss	3	—	—	(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	4(a)	(1,250)	(3,026)	(5,371)	(3,457)	(11,883)
Profit before taxation	4	10,987	26,305	197,172	112,865	430,718
Income tax	5(a)	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 attributable to the year/period:	8					
Dividends declared during the year/period		—	—	—	—	45,342
Dividends declared after the balance sheet date		—	—	—	—	31,400
		—	—	—	—	76,742
Basic earnings per share (RMB)	9	0.007	0.015	0.119	0.068	0.243

The accompanying notes form part of the Financial Information.

2 Combined balance sheets

	Section C Note	As at 30 June 2006	As at 30 June 2007	As at 30 June 2008	As at 31 March 2009
		RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets					
Fixed assets	10				
—Property, plant and equipment		19,272	17,358	88,655	158,072
—Interests in leasehold land held for own use under operating leases		—	22,189	23,425	86,865
		19,272	39,547	112,080	244,937
Deferred tax assets	18(b)	994	1,345	—	—
		20,266	40,892	112,080	244,937
Current assets					
Inventories	11	35,241	68,943	181,056	131,655
Trade and other receivables	12	93,518	138,394	673,767	1,597,444
Amounts due from related parties	19	98,936	106,546	38,017	—
Pledged bank deposits	13	9,600	12,600	38,500	91,700
Cash and cash equivalents	14	11,769	23,547	108,895	129,840
		249,064	350,030	1,040,235	1,950,639
Current liabilities					
Bank loans	15	43,000	60,000	149,500	227,000
Trade and other payables	17	154,255	173,005	534,713	1,141,338
Amounts due to a shareholder of the Company	19	—	29,082	142,149	129,995
Current taxation	18(a)	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
Total assets less current liabilities		71,738	127,131	321,170	653,762
Non-current liabilities					
Deferred tax liabilities	18(b)	—	—	3,584	16,555
NET ASSETS		71,738	127,131	317,586	637,207
CAPITAL AND RESERVES	20				
Share capital		52,084	82,724	82,724	1
Reserves		19,654	44,407	234,862	637,206
TOTAL EQUITY		71,738	127,131	317,586	637,207

The accompanying notes form part of the Financial Information.

3 Combined statements of changes in equity

	Section C Note	Years ended 30 June 2006 RMB'000	Years ended 30 June 2007 RMB'000	Years ended 30 June 2008 RMB'000	Nine months ended 31 March 2008 RMB'000 (Unaudited)	Nine months ended 31 March 2009 RMB'000
Total equity at 1 July		43,145	71,738	127,131	127,131	317,586
Net income recognised directly in equity:						
Exchange differences on translation of financial statements of operations outside PRC		—	1,842	11,482	11,424	757
Net profit for the year/period		11,006	22,911	178,973	102,656	364,205
Total recognised income and expense for the year/period		11,006	24,753	190,455	114,080	364,962
Dividends declared or approved during the year/period	8	—	—	—	—	(45,342)
Movements in equity arising from capital transaction						
Issue of shares	20(b)	—	—	—	—	1
Capital injection	20(b)	17,587	30,640	—	—	—
		17,587	30,640	—	—	1
Total equity at 30 June/ 31 March		71,738	127,131	317,586	241,211	637,207

The accompanying notes form part of the Financial Information.

4 Combined cashflow statements

	Section C Note	Years ended 30 June 2006 RMB'000	2007 RMB'000	2008 RMB'000	Nine months ended 31 March 2008 RMB'000 (Unaudited)	2009 RMB'000
Operating activities						
Profit before taxation		10,987	26,305	197,172	112,865	430,718
Adjustments for:						
—Depreciation	4(c)	2,749	2,884	4,600	3,121	6,568
—Amortisation of land lease premium for property held for own use	4(c)	—	78	435	323	972
—Finance costs	4(a)	1,250	3,026	5,371	3,457	11,883
—Interest income	3	(144)	(245)	(362)	(181)	(1,077)
—Loss on disposal of fixed assets	3	—	—	1,948	—	54
—Foreign exchange loss		—	1,842	6,577	6,518	757
Operating profit before changes in working capital		14,842	33,890	215,741	126,103	449,875
(Increase)/decrease in inventories		(20,646)	(33,702)	(112,113)	(53,627)	49,401
Increase in trade and other receivables		(68,495)	(45,057)	(535,373)	(383,026)	(939,876)
(Increase)/decrease in amounts due from related parties		(42,461)	(7,610)	68,529	87,187	38,017
Increase in trade and other payables		77,410	2,317	378,141	223,724	579,910
Cash (used in)/generated from operations		(39,350)	(50,162)	14,925	361	177,327
Income tax paid		(518)	(2,378)	(10,191)	(8,046)	(14,844)
Net cash (used in)/ generated from operating activities		(39,868)	(52,540)	4,734	(7,685)	162,483
Investing activities						
Payment for purchases of fixed assets		(2,279)	(6,623)	(98,008)	(41,758)	(97,563)
Proceeds from disposal of fixed assets		—	—	2,059	—	26
Increase in pledged bank deposits		(2,978)	(3,000)	(25,900)	(2,600)	(53,200)
Interest received		144	245	362	181	1,077
Net cash used in investing activities		(5,113)	(9,378)	(121,487)	(44,177)	(149,660)
Financing activities						
Proceeds from new bank loans		60,000	72,000	149,500	64,000	265,500
Repayment of bank loans		(27,000)	(55,000)	(60,000)	(49,000)	(188,000)
Proceeds from new shares issued	20(b)	—	—	—	—	1
Proceeds from capital injection	20(b)	17,587	30,640	—	—	—
Increase/(decrease) in amounts due to a shareholder of the Company		—	29,082	117,972	105,448	(12,154)
Interest paid		(1,250)	(3,026)	(5,371)	(3,457)	(11,883)
Dividends paid		—	—	—	—	(45,342)
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 beginning of the year/period		7,413	11,769	23,547	23,547	108,895
Cash and cash equivalents at end of the year/period	14	11,769	23,547	108,895	88,676	129,840

The accompanying notes form part of the Financial Information.

C NOTES TO THE FINANCIAL INFORMATION

1 Significant accounting policies

(a) Statement of compliance

The Financial Information set out in this report has been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**"), which collective term includes Hong Kong Accounting Standards ("**HKASs**") and Interpretations, promulgated by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"). Further details of the significant accounting policies adopted are set out in the remainder of this Section C.

The Group did not prepare combined financial statements previously. This is the Group's first HKFRS combined Financial Information and HKFRS 1 "First-time adoption of Hong Kong Financial Reporting Standards" has been applied.

The HKICPA issued a number of new and revised HKFRSs. For the purpose of preparing this Financial Information, the Group has adopted all these new and revised HKFRSs applicable to the Relevant Period, except for any new standards or interpretations that are not yet effective for the accounting periods beginning on or after 1 January 2009. The revised and new accounting standards and interpretations issued but not yet effective for the accounting periods beginning on or after 1 January 2009 are set out in note 26.

The Financial Information also complies with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

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

(b) Basis of combination and measurement

The Financial Information comprises the Company and its subsidiaries and has been prepared using the merger basis of accounting as if the Group had always been in existence, as further explained in Section A.

The Financial Information is presented in Renminbi ("**RMB**"), rounded to the nearest thousand. The measurement basis used in the preparation of the Financial Information is the historical costs basis.

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

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

Judgements made by management in the application of HKFRSs that have significant effect on the Financial Information and estimates with a significant risk of material adjustment in the next year are discussed in note 24.

(c) Subsidiaries

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

The income and expenses of a subsidiary are included in the Financial Information from the date that control commences until the date control ceases. Merger accounting is adopted for common control combinations in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory.

Intra-group balances and transactions and any unrealised profit arising from intra-group transactions is eliminated in full in preparing the Financial Information. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

(d) Property, plant and equipment

Items of property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 1(f)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initiate estimate, where relevant, of the cost of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 1(q)).

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

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

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

(e) Operating lease charges

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

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

(f) Impairment of assets

(i) Impairment of trade and other receivables

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

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

- it becomes probable that the debtor will enter bankruptcy or other financial reorganisation; and
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

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

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

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

(ii) Impairment of other assets

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

- property, plant and equipment;
- prepaid interest in leasehold land classified as being held under an operating lease; and
- investments in subsidiaries.

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

- Calculation of recoverable amount

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

- Recognition of impairment losses

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

- Reversals of impairment losses

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

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

(g) Inventories

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

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

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

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

(h) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts (see note 1(f)), except where the receivables are interest free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(i) Interest-bearing borrowings

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

(j) Trade and other payables

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

(k) Cash and cash equivalents

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

(l) Employee benefits

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

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

(m) Income tax

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

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

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

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

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

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

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

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

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

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

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

(n) Provisions and contingent liabilities

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

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

(o) Revenue recognition

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

(i) Sale of goods

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

(ii) Interest income

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

(iii) Government grants

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

(p) Translation of foreign currencies

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

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

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

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

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

(q) Borrowing costs

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

(r) Research and development and advertising

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

(s) Related parties

For the purposes of the Financial Information, a party is considered to be related to the Group if:

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

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

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

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

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

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

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

(t) Segment reporting

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

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

2 Revenues

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

	Years ended 30 June			Nine months ended 31 March	
	2006	**2007**	**2008**	**2008**	**2009**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000 (Unaudited)**	**RMB'000**
Footwear	240,325	345,890	866,134	599,087	1,133,237
Apparel	21,229	22,739	432,737	248,211	1,232,942
Accessories and others	1,369	4,717	18,198	6,353	57,500
	262,923	373,346	1,317,069	853,651	2,423,679

3 Other revenue and other loss

	Years ended 30 June			Nine months ended 31 March	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Other revenue					
Interest income	144	245	362	181	1,077
Government grants	680	1,346	2,105	850	4,750
	824	1,591	2,467	1,031	5,827
Other loss					
Loss on disposal of fixed assets	—	—	(1,948)	—	(54)

Government grants of RMB680,000, RMB1,346,000 and RMB2,005,000, RMB850,000 and RMB4,750,000 during the years ended 30 June 2006, 2007 and 2008 and for the nine months ended 31 March 2008 and 2009 respectively, were received from several of local government authorities for the Group's contribution to local economies, of which the entitlement was unconditional and under the discretion of the relevant authorities.

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

4 Profit before taxation

Profit before taxation is arrived at after charging:

	Years ended 30 June			Nine months ended 31 March	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
(a) Finance costs:					
Interest on bank borrowings wholly repayable within five years	1,250	3,026	5,371	3,457	11,883
(b) Staff costs:					
Contributions to defined contribution retirement plans	23	98	315	164	2,113
Salaries, wages and other benefits	35,366	41,799	70,949	47,910	84,457
	35,389	41,897	71,264	48,074	86,570
(c) Other items:					
Auditors' remuneration	17	28	50	25	45
Amortisation of land lease premium	—	78	435	323	972
Depreciation	2,749	2,884	4,600	3,121	6,568
Operating lease charges in respect of properties	289	289	663	483	2,556
Research and development costs	167	222	3,639	1,149	10,831
Cost of inventories	235,865	296,423	969,041	651,292	1,632,354

5 Income tax in the combined income statements

(a) *Taxation in the combined income statements represents:*

	Years ended 30 June			Nine months ended 31 March	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Current tax—PRC income tax					
Provision for the year	855	3,745	13,270	9,417	53,542
Deferred tax					
Origination and reversal of temporary differences	(874)	(351)	4,929	792	12,971
Actual tax (credit)/expense	(19)	3,394	18,199	10,209	66,513

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

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

(iii) Pursuant to the income tax rules and regulations of the PRC, the companies comprising the Group are liable to PRC enterprise income tax as follows:

- Sanliuyidu (Fujian) Sports Goods Co., Ltd. is a foreign investment enterprise and, pursuant to the Income Tax Law of the PRC For Enterprises with Foreign Investment And Foreign Enterprises (effective as of 1 July 1991), is entitled to tax concessions whereby the profit for the first two financial years beginning with the first profit-making year is exempted from income tax in the PRC and the profit for each of the subsequent three years is taxed at 50% of the prevailing tax rate set by the local authorities. The first profit-making year of Sanliuyidu (Fujian) Sports Goods Co., Ltd was 2004. Accordingly, Sanliuyidu (Fujian) Sports Goods Co., Ltd is exempted from PRC enterprise income tax from 1 January 2004 to 31 December 2005 and the applicable rate for the period from 1 January 2006 to 31 December 2007 and 1 January 2008 to 31 December 2008 is 12% and 12.5% respectively. With effect from 1 January 2009, the applicable tax rate is 25%.

- Sanliuyidu (China) Co., Ltd. is a foreign investment enterprise and, pursuant to the Income Tax Law of the PRC For Enterprises with Foreign Investment And Foreign Enterprises (effective as of 1 July 1991), is entitled to tax concessions whereby the profit for the first two financial years beginning with the first profit-making year is exempted from income tax in the PRC and the profit for each of the subsequent three years is taxed at 50% of the prevailing tax rate set by the local authority. The first profit-making year of Sanliuyidu (China) Co., Ltd. is 2008. Accordingly, Sanliuyidu (China) Co., Ltd. is exempted from PRC enterprise income tax during the Relevant Period.

- Sanliuyidu (Xiamen) Industry & Trade Co., Ltd. is a limited liability company incorporated under the laws of the PRC in 2008 and is subject to a tax rate of 25%.

(iv) Under the Corporate Income Tax Law of the PRC with effect from 1 January 2008 onwards, non-resident enterprises without an establishment or place of business in the PRC or which have an establishment or place of business but the relevant income is not effectively connected with the establishment or a place of business in the PRC, will be subject to withholding income tax at the rate of 10% on various types of passive income such as dividends derived from sources in the PRC. Pursuant to the double tax arrangement between the PRC and Hong Kong effective on 8 December 2006, the withholding income tax rate will be reduced to 5% if the investment by the Hong Kong investor in the invested entities in the PRC is not less than 25%. On 22 February 2008, the Minister of Finance and State Administration of Tax approved Caishui (2008) No. 1, pursuant to which dividend distributions out of retained earnings of foreign investment enterprises prior to 31 December 2007 will be exempted from withholding income tax. Deferred tax liabilities of RMB7,154,000, RMB3,017,000 and RMB19,281,000 in respect of the withholding income tax on dividends has been recognised for the year ended 30 June 2008 and for the nine months ended 31 March 2008 and 2009 respectively.

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

	Years ended 30 June			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
Notional 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	79	824	532	150	2,798
Tax effect of profits entitled to tax exemption in the PRC	(2,735)	(3,744)	(31,320)	(17,987)	(43,965)
Actual tax (credit)/expenses	(19)	3,394	18,199	10,209	66,513

6 Directors' remuneration

Details of directors' remuneration are set out below:

	Year ended 30 June 2006				
Name of directors	Fee	Basic salaries, allowances and other benefits	Contributions to retirement benefits schemes	Discretionary bonus	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors					
Ding Wuhao	—	83	5	—	88
Ding Huihuang	—	83	5	—	88
Ding Huirong	—	—	—	—	—
Wang Jiabi	—	—	—	—	—
Non-executive directors					
Mak Kin Kwong	—	—	—	—	—
Sun Xianhong	—	—	—	—	—
Liu Jianxing	—	—	—	—	—
Total	—	166	10	—	176

	Year ended 30 June 2007				
Name of directors	Fee	Basic salaries, allowances and other benefits	Contributions to retirement benefits schemes	Discretionary bonus	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors					
Ding Wuhao	—	158	8	—	166
Ding Huihuang	—	158	8	—	166
Ding Huirong	—	—	—	—	—
Wang Jiabi	—	—	—	—	—
Non-executive directors					
Mak Kin Kwong	—	—	—	—	—
Sun Xianhong	—	—	—	—	—
Liu Jianxing	—	—	—	—	—
Total	—	316	16	—	332

Name of directors	Year ended 30 June 2008				
	Fee	Basic salaries, allowances and other benefits	Contributions to retirement benefits schemes	Discretionary bonus	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors					
Ding Wuhao	—	437	5	—	442
Ding Huihuang	—	389	5	—	394
Ding Huirong	—	274	3	—	277
Wang Jiabi	—	297	3	—	300
Non-executive directors					
Mak Kin Kwong	—	—	—	—	—
Sun Xianhong	—	—	—	—	—
Liu Jianxing	—	—	—	—	—
Total	—	1,397	16	—	1,413

Name of directors	Nine months ended 31 March 2008 (Unaudited)				
	Fee	Basic salaries, allowances and other benefits	Contributions to retirement benefits schemes	Discretionary bonus	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors					
Ding Wuhao	—	271	—	—	271
Ding Huihuang	—	254	3	—	257
Ding Huirong	—	138	3	—	141
Wang Jiabi	—	162	3	—	165
Non-executive directors					
Mak Kin Kwong	—	—	—	—	—
Sun Xianhong	—	—	—	—	—
Liu Jianxing	—	—	—	—	—
Total	—	825	9	—	834

Name of directors	Nine months ended 31 March 2009				
	Fee	Basic salaries, allowances and other benefits	Contributions to retirement benefits schemes	Discretionary bonus	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors					
Ding Wuhao	—	1,148	2	—	1,150
Ding Huihuang	—	916	2	—	918
Ding Huirong	—	916	2	—	918
Wang Jiabi	—	538	2	—	540
Non-executive directors					
Mak Kin Kwong	—	—	—	—	—
Sun Xianhong	—	—	—	—	—
Liu Jianxing	—	—	—	—	—
Total	—	3,518	8	—	3,526

During the Relevant Period, no amount was paid or payable by the Group to the directors or any of the five highest paid individuals set out in note 7 below as an inducement to join or upon joining the Group or as compensation for loss of office.

The amount paid to the executive directors represented mainly allowances provided for certain business trips outside China. The Group did not pay any remuneration to Ding Huirong and Wang Jiabi, executive directors for the two years ended 30 June 2007 because they did not make any business trips outside China that required allowances from the Group during the period. All of the executive directors have agreed to waive their salaries during the Relevant Period in order to enhance the capital base of the Group and facilitate the Group's expansion. The executive directors will receive director fees determined by reference to market rates after listing.

7 Individuals with highest emoluments

The five highest paid individuals of the Group during the Relevant Period include 2, 2, 4, 4, and 3 directors for the years ended 30 June 2006, 2007 and 2008 and the nine months ended 31 March 2008 and 2009 respectively, whose emoluments are disclosed in note 6. The aggregate of the emoluments in respect of the remaining individuals are as follows:

	Years ended 30 June			Nine months ended 31 March	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Salaries and other emoluments	203	369	385	159	2,648
Contributions to retirement benefits scheme	14	23	5	3	5
	217	392	390	162	2,653
Number of senior management	3	3	1	1	2

The above individuals' emoluments are within the following bands:

	Years ended 30 June			Nine months ended 31 March	
	2006	2007	2008	2008	2009
	Number of individuals	Number of individuals	Number of individuals	Number of individuals (Unaudited)	Number of individuals
Nil to RMB500,000	3	3	1	1	—
RMB500,001 to RMB1,000,000	—	—	—	—	1
RMB1,000,001 to RMB2,000,000	—	—	—	—	1

8 Dividends

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

	Years ended 30 June			Nine months ended 31 March	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Dividends declared during the year/period	—	—	—	—	45,342
Dividends declared after the balance sheet date	—	—	—	—	31,400
	—	—	—	—	76,742

Dividends presented during the Relevant Period represent dividends declared by Sanliuyidu (Fujian) Sports Goods Co., Ltd. to their then shareholders before it became a subsidiary of the Company.

The dividends proposed after the balance sheet date have not been recognised as liabilities at the balance sheet date.

The rate of dividend per share is not presented as it is not indicative of the rate at which future dividends will be declared.

9 Basic earnings per share

The calculation of basic earnings per share for the Relevant Period is based on the net profit attributable to equity shareholders of the Company for each of the years ended 30 June 2006, 2007 and 2008 and the nine months ended 31 March 2008 and 2009, and on the number of shares in issue as at the date of the completion of Capitalisation Issue as if the shares were outstanding throughout the entire Relevant Period.

There were no dilutive potential ordinary shares during the Relevant Period and, therefore, diluted earnings per share are not presented.

10 Fixed assets

	Buildings	Plant and machinery	Office equipment and other fixed assets	Motor vehicles	Construction in progress	Sub-total	Interests in leasehold land held for own use under operating leases	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost:								
At 1 July 2005	—	24,461	39	—	—	24,500	—	24,500
Additions	—	863	143	184	—	1,190	—	1,190
At 30 June 2006	—	25,324	182	184	—	25,690	—	25,690
Accumulated depreciation and amortisation:								
At 1 July 2005	—	3,659	10	—	—	3,669	—	3,669
Charge for the year	—	2,726	12	11	—	2,749	—	2,749
At 30 June 2006	—	6,385	22	11	—	6,418	—	6,418
Net book value:								
At 30 June 2006	—	18,939	160	173	—	19,272	—	19,272

	Buildings	Plant and machinery	Office equipment and other fixed assets	Motor vehicles	Construction in progress	Sub-total	Interests in leasehold land held for own use under operating leases	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost:								
At 1 July 2006	—	25,324	182	184	—	25,690	—	25,690
Additions	—	514	456	—	—	970	22,267	23,237
At 30 June 2007	—	25,838	638	184	—	26,660	22,267	48,927
Accumulated depreciation and amortisation:								
At 1 July 2006	—	6,385	22	11	—	6,418	—	6,418
Charge for the year	—	2,820	47	17	—	2,884	78	2,962
At 30 June 2007	—	9,205	69	28	—	9,302	78	9,380
Net book value:								
At 30 June 2007	—	16,633	569	156	—	17,358	22,189	39,547

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

	Buildings	Plant and machinery	Office equipment and other fixed assets	Motor vehicles	Construction in progress	Sub-total	Interests in leasehold land held for own use under operating leases	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost:								
At 1 July 2008	43,391	40,848	1,914	3,972	10,636	100,761	23,938	124,699
Transfer from construction in progress	47,225	—	—	—	(47,225)	—	—	—
Additions	—	1,601	6,111	1,224	67,129	76,065	64,412	140,477
Disposals	—	(430)	—	—	—	(430)	—	(430)
At 31 March 2009	90,616	42,019	8,025	5,196	30,540	176,396	88,350	264,746
Accumulated depreciation and amortisation:								
At 1 July 2008	26	11,254	260	566	—	12,106	513	12,619
Charge for the period	1,496	3,154	1,127	791	—	6,568	972	7,540
Written back on disposals	—	(350)	—	—	—	(350)	—	(350)
At 31 March 2009	1,522	14,058	1,387	1,357	—	18,324	1,485	19,809
Net book value:								
At 31 March 2009	89,094	27,961	6,638	3,839	30,540	158,072	86,865	244,937

Fixed assets with aggregate net book value of RMB5,945,000 and RMB57,926,000 are pledged as security for certain bank loans of the Group totalling RMB15,000,000 and RMB40,000,000 as at 30 June 2008 and 31 March 2009 respectively.

At 31 March 2009, the Group was applying for certificates of ownership for buildings, with net book value of RMB47,225,000 as at 31 March 2009 from the relevant PRC government authorities.

11 Inventories

Inventories in the combined balance sheets comprise:

	As at 30 June			As at 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
	35,241	68,943	181,056	131,655

All the inventories as at 30 June 2006, 2007 and 2008 and 31 March 2009 were carried at cost.

12 Trade and other receivables

	As at 30 June			As at 31 March
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Trade debtors	72,670	89,096	525,942	1,411,323
Bills receivable	—	—	25,520	47,300
Less: allowance for doubtful debts	(3,976)	(5,378)	(14,279)	(39,520)
	68,694	83,718	537,183	1,419,103
Deposits, prepayments and other receivables	24,824	54,676	136,584	178,341
	93,518	138,394	673,767	1,597,444

All of the trade and other receivables are expected to be recovered within one year, except that the Group's deposits, prepayments and other receivables totalling RMB908,000, RMB21,456,000 and RMB20,500,000 at 30 June 2007 and 2008 and 31 March 2009, respectively are expected to be recovered or recognised as expenses after more than one year.

(a) Ageing analysis

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

	As at 30 June			As at 31 March
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Within 90 days	38,889	51,135	393,264	1,112,614
Over 91 days but less than 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	—	—
	68,694	83,718	537,183	1,419,103

(b) Impairment of trade debtors and bills receivable

Impairment losses in respect of trade debtors and bills receivable are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade debtors and bills receivable directly (see note 1(f)(i)).

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

	As at 30 June			As at 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

At 30 June 2006, 2007 and 2008 and 31 March 2009, the Group's trade debtors and bills receivable of RMB3,976,000, RMB5,378,000, RMB14,279,000 and RMB39,520,000 were individually determined to be impaired. The individually impaired receivables related to a number of customers and management assessed that the receivables were not recoverable. Consequently, specific allowances for doubtful debts were recognised at 30 June 2006, 2007 and 2008 and 31 March 2009. The Group does not hold any collateral over these balances.

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

Trade debtors and bills receivable are due within 30 to 180 days from the date of billing. Further details on the Group's credit policy are set out in note 21(a).

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

	As at 30 June			As at 31 March
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Not past due	19,324	29,466	280,852	1,126,043
Less than 1 month past due	19,565	21,669	112,412	150,199
1 to 3 months past due	18,521	17,023	94,973	118,466
More than 3 months past due	11,284	15,560	48,946	24,395
Amount past due	49,370	54,252	256,331	293,060
	68,694	83,718	537,183	1,419,103

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

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

13 Pledged bank deposits

Bank deposits are pledged to banks as security for certain banking facilities (see note 17).

14 Cash and cash equivalents

Cash and cash equivalents represent cash at bank and in hand. The amounts were placed with banks in the PRC and remittance of funds out of the PRC is subject to the exchange restriction imposed by the PRC government.

15 Bank loans

As at 30 June 2006, 2007 and 2008 and 31 March 2009, the bank loans were repayable as follows:

	As at 30 June			As at 31 March
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Within 1 year or on demand	43,000	60,000	149,500	227,000

As at 30 June 2006, 2007 and 2008 and 31 March 2009, the bank loans were secured as follows:

	As at 30 June			As at 31 March
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Bank loans				
—secured	—	—	15,000	40,000
—unsecured	43,000	60,000	134,500	187,000
	43,000	60,000	149,500	227,000

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

	As at 30 June			As at 31 March
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Facility amount	101,000	122,500	530,000	553,500
Utilisation at the balance sheet date	101,000	122,500	293,000	535,500

Certain bank loans of RMB40,000,000, RMB60,000,000, RMB90,000,000 were guaranteed by a related party at 30 June 2006, 2007 and 2008 respectively. In addition, bank loans of RMB40,000,000 and RMB46,000,000 at 30 June 2008 and 31 March 2009 were jointly guaranteed by certain shareholders of the Company and a related party. Details of guarantees are disclosed in note 23(e).

At 30 June 2008 and 31 March 2009, certain banking facilities of the Group were secured by mortgages over their interests in leasehold land held under operating leases with a carrying value of RMB5,945,000 and RMB16,058,000 respectively.

At 31 March 2009, certain banking facilities of the Group were secured by mortgages over their fixed assets with carrying value of RMB41,868,000.

16 Employee retirement benefits

Defined contribution retirement plans

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

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

17 Trade and other payables

	As at 30 June			As at 31 March
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables	69,439	55,103	327,276	673,069
Bills payable	58,000	62,500	143,500	308,500
Receipts in advance	17,623	20,636	32,314	39,658
Other payables and accruals	9,193	34,766	31,623	120,111
Total	154,255	173,005	534,713	1,141,338

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

Certain bills payable of RMB48,000,000, RMB60,000,000, RMB46,500,000 were guaranteed by a related party at 30 June 2006, 2007 and 2008 respectively. In addition, bills payable of RMB92,000,000 and RMB141,000,000 at 30 June 2008 and 31 March 2009 respectively were jointly guaranteed by certain shareholders of the Company and a related party. Details of the guarantees are disclosed in note 23(e).

Bills payable as at 30 June 2006, 2007 and 2008 and 31 March 2009 were secured by pledged bank deposits as disclosed in note 13.

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

	As at 30 June			As at 31 March
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Due within 1 month or on demand	34,663	21,102	49,174	152,366
Due after 1 month but within 3 months	18,697	27,043	93,275	188,282
Due after 3 months but within 6 months	74,079	69,458	328,327	640,921
Total	127,439	117,603	470,776	981,569

18 Income tax in the combined balance sheets

(a) Current taxation in the combined balance sheets represents:

	As at 30 June			As at 31 March
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Provision for PRC income tax	855	3,745	13,270	53,542
Tax paid	(518)	(2,041)	(8,487)	(10,061)
	337	1,704	4,783	43,481

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

The components of deferred tax assets/(liabilities) recognised in the combined balance sheets and the movements during the Relevant Period are as follows:

	Allowance for doubtful debts	Withholding tax on dividends	Total
	RMB'000	RMB'000	RMB'000
At 1 July 2005	120	—	120
Credited to profit or loss	874	—	874
At 30 June 2006	994	—	994
At 1 July 2006	994	—	994
Credited to profit or loss	351	—	351
At 30 June 2007	1,345	—	1,345
At 1 July 2007	1,345	—	1,345
Credited/(charged) to profit or loss	2,225	(7,154)	(4,929)
At 30 June 2008	3,570	(7,154)	(3,584)
At 1 July 2008	3,570	(7,154)	(3,584)
Credited/(charged) to profit or loss	6,310	(19,281)	(12,971)
At 31 March 2009	9,880	(26,435)	(16,555)

19 Amounts due from related parties and amounts due to a shareholder of the Company

Amounts due from related parties are unsecured, interest-free and recovered during the period ended 31 March 2009.

Amounts due to a shareholder of the Company are unsecured, interest-free and repayable on demand.

20 Capital and reserves

(a) The Group

	Capital	Statutory reserve	Exchange reserve	Other reserve	Retained profits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 July 2005	34,497	1,297	—	—	7,351	43,145
Capital injection	17,587	—	—	—	—	17,587
Profit for the year	—	—	—	—	11,006	11,006
Appropriation to statutory reserve	—	1,651	—	—	(1,651)	—
At 30 June 2006	52,084	2,948	—	—	16,706	71,738
At 1 July 2006	52,084	2,948	—	—	16,706	71,738
Capital injection	30,640	—	—	—	—	30,640
Exchange differences on translation of financial statements of operations outside PRC	—	—	1,842	—	—	1,842
Profit for the year	—	—	—	—	22,911	22,911
Appropriation to statutory reserve	—	3,437	—	—	(3,437)	—
At 30 June 2007	82,724	6,385	1,842	—	36,180	127,131
At 1 July 2007	82,724	6,385	1,842	—	36,180	127,131
Exchange differences on translation of financial statements of operations outside PRC	—	—	11,482	—	—	11,482
Profit for the year	—	—	—	—	178,973	178,973
Appropriation to statutory reserve	—	26,846	—	—	(26,846)	—
At 30 June 2008	82,724	33,231	13,324	—	188,307	317,586
At 1 July 2008	82,724	33,231	13,324	—	188,307	317,586
Issue of shares	1	—	—	—	—	1
Arising from the reorganisation	(82,724)	—	—	82,724	—	—
Exchange differences on translation of financial statements of operations outside PRC	—	—	757	—	—	757
Profit for the year	—	—	—	—	364,205	364,205
Appropriation to statutory reserve	—	54,951	—	—	(54,951)	—
Dividends paid during the year	—	—	—	—	(45,342)	(45,342)
At 31 March 2009	1	88,182	14,081	82,724	452,219	637,207

(b) Share capital

For the purpose of this report, share capital at 30 June 2006, 2007 and 2008 represents the aggregate amount of paid-in capital of the companies comprising the Group at those dates, after elimination of investments in subsidiaries.

During the years ended 30 June 2006 and 2007, the equity holders of Sanliuyidu (Fujian) Sports Goods Co., Ltd. injected capital totalling RMB17,587,000 and RMB30,630,000 respectively to the entity, which was satisfied by cash.

Sanliuyidu (Hong Kong) Sports Goods Co., Ltd. was incorporated on 6 April 2004 with an authorised share capital of HK$10,000 comprising 10,000 shares of HK$1 each. The capital was issued and fully paid in cash at par during the year ended 30 June 2007.

Upon completion of the Reorganisation, the Company became the holding company of the Group. Share capital at 31 March 2009 represents the share capital of the Company (note 25).

(c) Nature and purpose of reserve

(i) Statutory reserve

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

(ii) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations outside PRC. The reserve is dealt with in accordance with the accounting policy set out in 1(p).

(iii) Other reserve

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

(d) Capital management

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

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

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

The net debt-to-adjusted capital ratio as at 30 June 2006, 2007 and 2008 and 31 March 2009 were as follows:

	As at 30 June			As at 31 March
	2006	**2007**	**2008**	**2009**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Bank loans	43,000	60,000	149,500	227,000
Bills payable	58,000	62,500	143,500	308,500
Less: Pledged bank deposits	(9,600)	(12,600)	(38,500)	(91,700)
Cash and cash equivalents	(11,769)	(23,547)	(108,895)	(129,840)
Net debt	79,631	86,353	145,605	313,960
Equity	71,738	127,131	317,586	637,207
Add: Amounts due to a shareholder of the Company	—	29,082	142,149	129,995
Adjusted capital	71,738	156,213	459,735	767,202
Net debt-to-adjusted capital ratio	1.11	0.55	0.32	0.41

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

21 Financial instruments

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

(a) Credit risk

(i) Trade and other receivables

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

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk but to a lesser extent. Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 12.

At the balance sheet date, the Group has a certain concentration of credit risk as 8%, 8%, 22% and 14% of the total trade receivables were due from the Group's largest customer, and 21%, 24%, 45% and 52% of the total trade receivables were due from the Group's five largest customers as at 30 June 2006, 2007 and 2008 and 31 March 2009 respectively.

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

(ii) Deposits with banks

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

(b) Liquidity risk

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

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

	30 June 2006			30 June 2007			30 June 2008			31 March 2009		
	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Bank loans	43,000	44,682	44,682	60,000	61,939	61,939	149,500	157,208	157,208	227,000	242,331	242,331
Trade and other payables	154,255	154,255	154,255	173,005	173,005	173,005	534,713	534,713	534,713	1,141,338	1,141,338	1,141,338
Amounts due to a shareholder of the Company	—	—	—	29,082	29,082	29,082	142,149	142,149	142,149	129,995	129,995	129,995
	197,255	198,937	198,937	262,087	264,026	264,026	826,362	834,070	834,070	1,498,333	1,513,664	1,513,664

(c) Interest rate risk

(i) Interest rate profile

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

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

	30 June 2006		30 June 2007		30 June 2008		31 March 2009	
	Effective interest rate	RMB'000	Effective interest rate	RMB'000	Effective interest rate	RMB'000	Effective interest rate	RMB'000
Fixed rate borrowings								
Bank loans	5.6%-6%	43,000	5.6%-6.2%	60,000	6.2%-8.2%	149,500	5.3%-8.2%	227,000
Variable rate deposits								
Pledged bank deposits	1.8%	(9,600)	3.33%	(12,600)	3.33%	(38,500)	0.36%-1.98%	(91,700)
Cash and cash equivalents	0.72%	(11,769)	0.72%	(23,547)	0.72%	(108,895)	0.01%-0.36%	(129,840)
		(21,369)		(36,147)		(147,395)		(221,540)
Total net borrowings		21,631		23,853		2,105		5,460

(ii) Sensitivity analysis

At 30 June 2006, 2007 and 2008 and 31 March 2009, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would increase/decrease the Group's profit after tax and retained profit by approximately RMB214,000, RMB361,000, RMB1,474,000 and RMB2,215,000 respectively. Other components of equity would not be affected by the changes in interest rates.

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

(d) Commodity price risk

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

(e) Foreign currency risk

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

(i) Exposure to currency risk

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

	As at 30 June			As at 31 March
	2006	2007	2008	2009
	HKD'000	HKD'000	HKD'000	HKD'000
Amounts due to a shareholder of the Company	—	54,200	164,520	176,216

(ii) Sensitivity analysis

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

	30 June 2006		30 June 2007		30 June 2008		31 March 2009	
	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits
		RMB'000		RMB'000		RMB'000		RMB'000
HKD	1%	—	5%	(2,710)	5%	(7,236)	5%	(7,769)
	(1)%	—	(5)%	2,710	(5)%	7,236	(5)%	7,769

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

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

(f) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 30 June 2006, 2007 and 2008 and 31 March 2009.

(g) Business risk

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

22 Commitments

(a) Contractual commitments outstanding at each balance sheet date not provided for in the Financial Information were as follows:

	As at 30 June			As at 31 March
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Advertising and marketing expenses	5,317	79,955	28,380	764,928

(b) Capital commitments outstanding at each balance sheet date not provided for in the Financial Information were as follows:

	As at 30 June			As at 31 March
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Authorised and contracted for	—	2,118	80,831	13,806

(c) At each balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases payable as follows:

	As at 30 June			As at 31 March
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Within 1 year	—	—	2,115	1,328

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

23 Material related party transactions

In addition to the transactions and balances disclosed in notes 6, 15, 17 and 19 to the Financial Information, the Group entered into the following related party transactions:

(a) During the years ended 30 June 2006, 2007 and 2008, the Group leased certain interests in leasehold land held for own use under operating leases and buildings from a related company, Bieke (Fujian) Shoes Company Ltd. (a company wholly-owned by Mr Ting Tong Bun, who is the father-in-law of a controlling shareholder of the Group, Mr Ding Huihuang), at annual rental expenses of RMB289,000, RMB289,000 and RMB313,000 respectively.

The Group acquired the above mentioned interests in leasehold land held for own use under operating leases and buildings from Bieke (Fujian) Shoes Company Ltd. during the year ended 30 June 2008 and nine months ended 31 March 2009. The consideration paid for interests in leasehold land held for own use under operating leases and buildings during the year ended 30 June 2008 amounted to RMB547,000 and RMB42,100,000 respectively, while consideration paid for interests in leasehold land held for own use under operating leases during the nine months ended 31 March 2009 amounted to RMB8,239,000.

The directors of the Company have confirmed that the terms of the above transactions are no less favourable to the Company than terms available to or from independent third parties.

The directors of the Company have confirmed that the above transactions will not be continued upon listing of the Company's shares on The Stock Exchange of Hong Kong Limited.

(b) Key management personnel remuneration

Remuneration for key management personnel, including amounts paid to the directors disclosed in note 6 and certain of the highest paid employees as disclosed in note 7, is as follows:

	Years ended 30 June			Nine months ended 31 March
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Short-term employee benefits	560	919	2,974	7,399
Post-employment benefits	19	31	26	23
	579	950	3,000	7,422

Total remuneration is disclosed in "staff costs" (see note 4(b)).

The directors of the Company expect the above transactions will be continued upon listing of the Company's shares on The Stock Exchange of Hong Kong Limited.

(c) Advances to/from related parties

Included in the balances as set out in note 23(d) are unsecured and interest free advances made to/from related parties of the Group which are not expected to continue after the listing of the shares of the Company, the maximum balances of which during the years ended 30 June 2006, 2007 and 2008 and nine months ended 31 March 2009 are as follows:

	Years ended 30 June			Nine months ended 31 March
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Short term advances to related parties				
—Mr Ting Tong Bun	94,515	94,515	119,548	49,995
—Bieke (Fujian) Shoes Company Ltd.	10,000	28,364	38,910	18,819
	104,515	122,879	158,458	68,814
Short term advances from a shareholder of the Company				
—Mr Ding Huihuang	—	(29,082)	(142,149)	(142,149)

The directors of the Company have confirmed that the above transactions will not be continued in the future after the listing of the Company's shares on The Stock Exchange of Hong Kong Limited.

(d) Balances with related parties

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

	As at 30 June			As at 31 March
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Amounts due from/(to)				
—Mr Ting Tong Bun	94,515	84,050	41,295	—
—Bieke (Fujian) Shoes Company Ltd.	4,421	22,496	(3,278)	—
	98,936	106,546	38,017	—
Amounts due to a shareholder of the Company				
—Mr Ding Huihuang	—	(29,082)	(142,149)	(129,995)

Included in amounts due from Bieke (Fujian) Shoes Company Ltd. are prepayment of RMB4,400,000 and RMB22,430,000 as at 30 June 2006 and 2007 for the acquisition of interests in leasehold land held for own use under operating leases and buildings as disclosed in note 23(a). Details of the terms for the above balances with related parties are disclosed in note 19. There was no provision made against these amounts at 30 June 2006, 2007 and 2008.

The directors have confirmed that the amounts due to a shareholder of the Company as stated above have been waived by the relevant related party prior to the listing of the shares of the Company on The Stock Exchange of Hong Kong Limited.

(e) Certain bank loans and bills payable totalling RMB88,000,000, RMB120,000,000 and RMB136,500,000 were guaranteed by Bieke (Fujian) Shoes Company Ltd. (a related party) at 30 June 2006, 2007 and 2008 respectively. In addition, certain bank loans and bills payable totalling RMB132,000,000 and RMB187,000,000 were guaranteed by Mr Ding Wuhao, Mr Ding Huihuang, Mr Ding Huirong and Mr Ding Jiantong (shareholders of the Company) and/or Mr Ting Tong Bun (a related party) at 30 June 2008 and 31 March 2009 respectively. The Group was not required to pay any guarantee fees to the guarantors.

The directors of the Company have confirmed that these guarantees would be released prior to the listing of the Company's shares on The Stock Exchange of Hong Kong Limited.

24 Accounting estimates and judgements

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

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the Financial Information. The principal accounting policies are set forth in note 1. The Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of the Financial Information.

(a) Depreciation

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

(b) Impairment

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

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

(c) Impairment for bad and doubtful debts

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

(d) Net realisable value of inventories

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

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

25 Financial information of the Company

The Company was incorporated on 1 August 2008 with authorised capital of HK$380,000 divided into 3,800,000 shares of HK$0.1 each. On 1 August 2008, 51 fully paid shares, 24 fully paid shares and 25 fully paid shares, each of HK$0.1 each ranking pari passu in all respects were allotted and issued to Hui Rong International Company Limited, Ming Rong International Company Limited and Dings International Company Limited respectively. On 15 August 2008, 5,049 fully paid shares, 2,376 fully paid shares and 2,475 fully paid shares, each of HK$0.1 each ranking pari passu in all respects were allotted and issued to Hui Rong International Company Limited, Ming Rong International Company Limited and Dings International Company Limited respectively.

The Company has not carried on any business since its date of incorporation except for the investment in Sanliuyidu Holdings Company Limited. As at 31 March 2009, the Company's balance sheet included only cash balance of RMB194 and investment in subsidiary of RMB688, representing the issued share capital of RMB882. Investment in subsidiary is stated at cost and details of the subsidiaries comprising the Group at 31 March 2009 are set out in Section A.

26 Possible impact of amendments, new standards and interpretations issued but not yet effective for the Relevant Period

Up to the date of issue of this Financial Information, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective in respect of the financial periods included in the Relevant Period, and which have not been adopted in this Financial Information.

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

In addition, the following developments may result in new or amended disclosures in the Financial Information:

		Effective for accounting periods beginning on or after
HKFRS 8	Operating segments	1 January 2009
Revised HKAS 1	Presentation of financial statements	1 January 2009
HKAS 23 (March 2007)	Borrowing costs	1 January 2009

D SUBSEQUENT EVENTS

The following significant transactions took place subsequent to 31 March 2009:

(a) Share Option Scheme

Pursuant to a written resolution of the shareholders of the Company passed on 10 June 2009, the Company has conditionally adopted the Pre-IPO Share Option Scheme and the Share Option Scheme. The principal terms of the Pre-IPO Share Option Scheme and Share Option Scheme are set out in the Section headed "Pre-IPO Share Option Scheme" and "Share Option Scheme" in Appendix VI to the Prospectus.

(b) Dividends

Pursuant to the Board resolution dated 10 June 2009, the Company declared dividends of approximately RMB31,400,000 to the then shareholders from retained earnings for the financial year ended 31 March 2009. Such dividends were fully paid before listing.

E SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies comprising the Group in respect of any period subsequent to 31 March 2009.

Yours faithfully,
KPMG
Certified Public Accountants
Hong Kong